

Decision 19-10-036 October 24, 2019

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric
Company to Revise its Gas Rates and
Tariffs to be Effective October 1, 2018.
(U39G).

Application 17-09-006

**DECISION APPROVING PACIFIC GAS AND ELECTRIC COMPANY'S
APPLICATION TO REVISE ITS GAS RATES AND TARIFFS**

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DECISION APPROVING PACIFIC GAS AND ELECTRIC COMPANY'S APPLICATION TO REVISE ITS GAS RATES AND TARIFFS

Summary

This decision resolves Pacific Gas and Electric Company's (PG&E's) gas cost allocation and rate design application; authorizes certain revisions to PG&E's gas rates and tariffs; and addresses revenue requirement allocation and rate design for PG&E's gas customers that are not decided in PG&E's separate Gas Transmission and Storage proceeding. Of most importance to residential customers, this decision authorizes PG&E to 1) reduce the residential Tier 1 and Tier 2 bundled rate differential over four years beginning with implementation of this decision, and 2) implement a \$1 increase in the residential minimum transportation charges for non-CARE customer basic service from the current \$3 to \$4 per month..

The Commission may consider opening a rulemaking in the future to examine rate design issues that may arise with continued investment in gas infrastructure amidst declining natural gas demand and corresponding throughput, and consider the embedded cost allocation proposal made in this proceeding by PG&E as a way of addressing these issues. This proceeding is closed.

1. Background

On September 14, 2017, Pacific Gas and Electric Company (PG&E) submitted Application (A.) 17-09-006, a gas cost allocation and rate design application (GCAP) to the California Public Utilities Commission (Commission), in order to revise its gas rates and tariffs. Specifically, PG&E's application,

submitted pursuant to California Public Utilities Code § 454¹ and Rule 3.2 of the Rules of Practice and Procedure (Rules), addresses revenue requirement allocation and rate design issues for PG&E's gas customers that are not decided in PG&E's separate Gas Transmission and Storage (GT&S) proceeding. PG&E requests new GCAP rates effective October 1, 2018 for the 36-month period from October 1, 2018 through September 30, 2021.

The Public Advocates Office of the Commission (Cal Advocates),² The Utility Reform Network (TURN), and Western Manufactured Housing Communities Association (WMA) timely protested PG&E's application. PG&E replied to the protests on November 6, 2017. The Small Business Utility Advocates (SBUA); the School Project for Utility Rate Reduction (SPURR) and Indicated Shippers all requested and were granted party status in this proceeding. Each of PG&E, Cal Advocates, TURN, WMA, SBUA, SPURR and Indicated Shippers, on behalf of Chevron U.S.A., and CRC Marketing, Inc. is a party in this proceeding.

On November 20, 2017 Administrative Law Judges (ALJ) Adeniyi A. Ayode and ALJ Stephen C. Roscow held a prehearing conference (PHC) in this proceeding. On January 26, 2018, the Commission issued the Scoping Memo and Ruling of Assigned Commissioner and the ALJs (Scoping Memo), which identified the scope for the proceeding, and identified issues to be briefed and decided in this proceeding.

¹ All statutory references are to the California Public Utilities Code, unless otherwise indicated.

² Formerly, the Commission's Office of Ratepayer Advocates (ORA). Senate Bill 854 (Stats. 2018, ch. 51) amended Pub. Util. Code Section 309.5(a) renaming the Office of Ratepayer Advocates to "the Public Advocate's Office of the Public Utilities Commission". We will refer to this party as **Cal Advocates**. However, any Exhibit that was offered by, and/or admitted for ORA/Cal Advocates in this proceeding (prior to the name change) will continue to be identified in this record as "ORA Exhibit"

On February 7, 2018, a second PHC was held in this proceeding in order “to discuss whether any issues may be resolved by the Commission on an expedited basis so that the outcome may be implemented by PG&E prior to the 2018 winter heating season.”³ On March 19, 2018, the Amended Scoping Memo and Ruling of the assigned Commissioner and the ALJs (Amended Scoping Memo) was issued, which adopted a new procedural schedule.

As adopted in the March 19, 2018 Amended Scoping Memo, a public workshop was noticed and held in the proceeding on March 14, 2018 in San Francisco, CA.

On June 26, 27, and 28, and July 10, 11, 16, and 17, 2018, Public Participation Hearings and Information Sessions were held in in the cities of Sacramento, Fresno, Bakersfield, Chico, San Francisco, San Jose, and Oakland, respectively, in order to obtain comments and feedback on the Application from PG&E’s customers.

Evidentiary hearings were held on July 23-26, 2018, in San Francisco, CA, and Testimony from PG&E, Cal Advocates, TURN, WMA, SBUA, and Indicated Shippers was received into the evidentiary record. On August 22, 2018, post hearing briefs were filed WMA, SPURR, Cal Advocates, SBUA, TURN, PG&E and Indicated Shippers. On September 12, 2018, reply briefs were filed by Cal Advocates, WMA, SBUA, PG&E and TURN.

On October 25, 2018 this Commission adopted Decision (D.) 18-10-040 (approving Settlement Agreement regarding “Residential Baseline Season Restructuring” in PG&E’s service territory) which resolved PG&E’s proposal in the GCAP Application to change the residential winter baseline months in order

³ See the January 26, 2018 Scoping Memo, at 1 (Summary).

to address residential bill volatility issues pursuant to Senate Bill (SB) 711.⁴ On February 21, 2019, this Commission adopted D.19-02-028 , which extended the statutory deadline in this proceeding to September 14, 2019.

D.19-09-030, issued on September 9, 2019, further extended the statutory deadline in this proceeding to March 14, 2020 in order to have needed time to address issues raised in the parties' comments to the proposed decision.

2. Jurisdiction; Legal and Policy Framework

Section 451 provides that public utilities may only demand and receive just and reasonable rates. Section 451 further states that the utilities must provide "adequate, efficient, just and reasonable service" in a way that promotes the "safety, health, comfort, and convenience of [their] patrons, employees, and the public." Section 454 requires the Commission to review proposed rates changes, make a finding of whether they are justified, and – once justified – authorize the proposed rates changes before they can take effect.

3. Issues before the Commission

The January 26, 2018 Scoping Memo set forth 13 issues for resolution in this proceeding. Issue 4 (Should PG&E's proposals changing the residential winter baseline months to December, January and February, and placing the remaining months of the year in a non-peak baseline season be approved?) was resolved by D.18-10-040. Section 4 of this decision lists and resolves each issue that remains.

⁴ See Stats. 2017, Ch. 467. Among others, SB 711 requires the Commission to make efforts to minimize bill volatility for residential customers and authorizes the Commission to do this, either by modifying the length of baseline seasons or defining additional baseline seasons. Per SB 711, the Commission may review and/or revise ("restructure") the baseline season during a utility's general rate case or other ratesetting proceeding.

3.1. Position of the Parties

3.1.1. PG&E

PG&E argues that, after litigating many of the issues in this GCAP Application and based on the prepared testimony it submitted, the record in this proceeding supports the adoption of its proposals. PG&E contends that its proposals in this GCAP Application are just and reasonable. PG&E believes its proposals fairly balance individual customer class interests and consider the interests of all customers in a fashion that is more equitable than any other proposal in this proceeding. Accordingly, PG&E asserts that the Commission should approve its GCAP Application requests and proposals, as further discussed below.

PG&E contends that the Commission should approve the use of the throughput forecast submitted by Cal Advocates in PG&E's GT&S proceeding, A.17-11-009 on an interim basis for gas distribution rate purposes until the Commission issues a final decision in the GT&S proceeding deciding the throughput issue. Thereafter, PG&E contends that it should be authorized to use the throughput approved in the most recent GT&S case.

Regarding cost allocation, PG&E argues that its proposal to use the embedded cost methodology to allocate gas distribution costs to customer classes should be approved "in light of the changed circumstances on its gas distribution system where drivers of additional cost are different from the Peak throughput factor in the past."⁵ Moreover, PG&E requests that the Commission approve its proposal to allocate energy efficiency costs based on an updated study of benefits received by each class as presented in Exhibit PGE-1, chapter 4A; PG&E also

⁵ PG&E's Opening Brief at 59.

proposes to continue allocating the Energy Savings Assistance Program gas costs entirely to the residential customer class.

Regarding the master meter discount, PG&E argues that the Commission should continue calculating the allowance provided to master-meter customers based on the principles and methodologies approved by the Commission in PG&E's 2017 General Rate Case (GRC) II decision, D.18-08-013. PG&E contends there is no reason to change these principles and methodologies in this proceeding.

PG&E requests that the Commission accept its Natural Gas Vehicle (NGV) Compression Cost study and that the Commission authorizes PG&E's proposed NGV compression rate of \$0.96 per therm. The new rate will reflect PG&E's updated operations & maintenance (O&M) expenses, overhead expenses and updated throughput data. Additionally, the new NGV compression rate will reflect PG&E's proposed Core Brokerage Fee.

Expanding further on the brokerage fee issues raised by parties in this proceeding, PG&E urges the Commission to reject TURN's proposal to add a working cash component to the Core Brokerage fee. PG&E argues that working cash for the gas commodity should be dealt with in the 2020 GRC I case.⁶

PG&E further urges that the Commission approve the proposed gradual reduction to the residential tiers differential to 1.2 – which would occur over the course of four years – as doing so would produce a more desirable tier differential. PG&E contends that the current differential has been impacted by unforeseen developments in the relationship of commodity and transportation costs over the years.

⁶ PG&E recommends that the Commission direct TURN to raise its working cash issue in PG&E's next General Rate Case, Phase I, (GRC I), where working cash is litigated.

PG&E requests approval of its proposed minimum non-CARE monthly transportation charge of \$15, and a Super Peak minimum monthly transportation charge equal to \$45; and the approval of its proposed update to the CPUC fee applicable to the electric generation customer class (Schedules G-EB and G-EGBB).

PG&E requests that the Commission approve its recommendations for a three to five-year cycle for filing future GCAP applications, and establishes GT&S cases as the appropriate venues for litigating and deciding gas throughput forecasts that will be implemented for future GCAP rate changes as well as GT&S rate changes. Further, PG&E requests that the Commission adopt the outcome of Cal Advocates' audit of PG&E's GCAP accounts (which indicated that Cal Advocates' auditors had "no concerns" with these accounts); and approve the gas implementation proposal in PG&E's Self-Generation Incentive Program (SGIP) May 31, 2018 compliance filing, including the SGIP Gas Cost Allocation Percentages for the gas rate schedules.⁷

3.1.2. Cal Advocates

Cal Advocates opposes certain proposals made by PG&E to change its gas distribution rates and their allocations to PG&E's various customer classes.⁸ Cal Advocates recommends that the Commission adopt its gas cost allocation proposals presented in this proceeding. Cal Advocates argues that the Commission reject various PG&E's proposed changes to the average residential

⁷ As offered by PG&E in its Opening Brief (at 59), the SGIP compliance filing originally occurred on May 18, 2018, but was subsequently revised for an error in the electric tables. On July 13, 2018, PG&E refiled and reserved the compliance filing with the title "Amended Proposal of Pacific Gas and Electric Company (U 39 G) For Self-Generation Incentive Program (SGIP) Cost Allocation Pursuant to Resolution E-4926 In Phase II Of Its 2017 General Rate Case."

⁸ See Cal Advocates' Opening Brief at 3-4.

customer's gas rate, and instead essentially adopt no change to the average bundled gas rate for residential customers, as proposed in its testimony. More specifically, Cal Advocates recommends: an increase of 8% for small commercial customers; an increase (by varying amounts) to the average transport-only, retail noncore rate for industrial customers at the distribution, backbone and service levels; and a decrease of 0.7% for electric generation customers at the distribution and transmission service levels.

Cal Advocates believes that an average weather total core throughput of 751 Mdth/D⁹ and an average weather total noncore throughput of 973 Mdth/D should be adopted by the Commission. By contrast, PG&E proposed a total core throughput of 754 Mdth/D (a difference of -0.40%) and average weather total noncore throughput of 1,183 Mdth/D (a difference of -17.75%), respectively.

Regarding cost allocation, Cal Advocates argues that the ESA program costs should be allocated using an "equal cents per therm" (ECPT) methodology while exempting the program beneficiaries. Cal Advocates also argues that PG&E's master meter discount should be applied using the "rental method" on a marginal costs approach in order to determine the access-related costs for Schedules GS and GT,¹⁰ and to determine the distribution line-related avoided costs applicable to only Schedule GT.

Furthermore, Cal Advocates recommends phasing in the reduction to the residential Tier 1 and Tier 2 bundled rate differential (resulting in a 1.2 differential) over the course of four years; an increase to the existing non-CARE¹¹

⁹ Mdth/D, thousand decatherms/day.

¹⁰ "GT" means Gas Transmission; and "GS" means Gas Storage.

¹¹ The California Alternate Rates for Energy (CARE) Program provides discounts on energy bills for income qualified households.

residential minimum gas transportation charge from \$3 a month to \$4¹² a month (in contrast to PG&E's proposed increase to \$15 a month); a \$12 a month Super-Peak User charge (in contrast to PG&E's proposed \$45 a month Super-Peak User charge); and a continuation of the use of the "marginal cost methodology" to allocate gas distribution revenue requirements to customer classes, instead of PG&E's proposed migration to the "embedded cost methodology."

Finally, Cal Advocates supports PG&E's proposal regarding the submission of future GCAP applications; and recommends that PG&E's recorded Core Brokerage Fee Account (CBFA) and Core Fixed Cost Account (CFCA) accounting entries sampled by Cal Advocates in this proceeding be found to be correctly stated through December 31, 2017.

3.1.3. TURN

Like Cal Advocates, TURN opposes a number of proposals put forth by PG&E in this GCAP Application and recommends that the Commission adopt TURN's gas cost allocation proposals rather than those of PG&E. TURN argues for a rejection of PG&E's embedded cost of service methodology due to "affordability concerns and drastic rate impacts and because PG&E's methodology still needs to be refined prior to adoption."¹³ Moreover, TURN argues for the following: the adoption of Cal Advocates' marginal cost study based on the new customer only (NCO) method; an update for the new tax law and cost of capital; and the removal of the smart-meter opt-out costs from revenue cycle services costs. TURN contends that if the embedded cost of service

¹² Cal Advocates state in its ORA Exhibit 5: "The BLS (Bureau of Labor Statistics) calculator indicates that \$3 in June 2005 has the same buying power as \$3.85 in March 2018."

¹³ TURN's Opening Brief at 1, and 13-24

methodology is adopted, the Commission should also adopt TURN's adjustments to PG&E's proposal which reduce the residential class allocation by \$23 million.

TURN indicates its opposition to PG&E's proposal to continue the allocation of EE gas costs based on the benefits to gas customer classes, but supports Cal Advocates' proposal to allocate ESA costs by a broad allocator such as ECPT, rather than assigning those costs entirely to residential customers. Regarding the Core Brokerage Fee, TURN recommends an increase in the Core Brokerage Fee from 0.249 cents per therm to 0.287 cents per therm; this increase would reflect the inclusion of working capital for gas commodity purchases. TURN also recommends an update to the mobile home park master meter discount for the new cost of capital and tax law, and a rejection of WMA's proposed increase to the master meter discount for mobilehome parks. Finally, TURN argues that the Commission reject PG&E's remaining residential rate design proposals, including the proposal of a \$15 Minimum Bill, because they discourage conservation and create affordability concerns.

3.1.4. WMA

WMA objects to PG&E's proposed master meter discount for mobilehome parks using illustrative values for the diversity benefit adjustment (DBA) and a gas loss adjustment of \$10.35 per space per month or \$0.33997 per space per day. WMA contends that the proposed value is about 30 percent lower than the current rate of \$0.48200 per space per day¹⁴ because PG&E's proposal underestimates the credit attributable to PG&E's average costs that is the basis of the master meter discount. WMA argues that PG&E used incorrect data, had

¹⁴ Referencing, PG&E Exhibit-2, Table 5-1, at 5-2.

flaws in the development of its DBA, and that there are errors and flaws in PG&E's calculations. As such, WMA urges the Commission to reject PG&E's proposed DBA and instead direct PG&E to implement a net master meter discount of \$17.83/mobile home space/month, which translates to \$0.58559/mobile home space/day as supported by detailed arguments in WMA's Opening Brief.¹⁵

3.1.5. SPURR¹⁶

SPURR submitted an Opening Brief solely on the issue of PG&E's proposal to update the Core Brokerage Fee in this Application.¹⁷ SPURR noted that it is willing to accept PG&E's Core Brokerage Fee proposal in this Application – for now. However, it continues to believe that the Core Brokerage Fee approved for PG&E in D.10-12-032 provides an unfair subsidy to PG&E because the fee includes cost recovery for PG&E's billing and transportation services and commodity supply as presented in SPURR's testimony submitted in A.09-05-026. SPURR urges the Commission to state (in the decision issued in this proceeding) that it intends to revisit the question of the costs that should be included in the Core Brokerage Fee in PG&E's next GCAP proceeding.

3.1.6. SBUA

In its Opening Brief, SBUA argues that: (1) PG&E's proposed embedded cost allocation methodology should be adopted by the Commission because it

¹⁵ See WMA's Opening Brief at 1-16.

¹⁶ SPURR is a joint powers authority which, as a core transport agent (CT"), provides aggregated service of, among other things, natural gas to core and noncore gas customers on the PG&E system. SPURR has done so since at least 1995, and serves thousands of facilities in PG&E's distribution service territory. SPURR's members are California public school districts, county offices of education, and community college districts.

¹⁷ The core brokerage fee is addressed in the prepared direct testimony of PG&E witness Mr. Bergero. (See PGE Exhibit-1, at 4B-1 - 4B-5, PG&E/Bergero.)

most accurately reflects the principle of cost causation, and that it is the most reasonable cost allocation methodology when assigning costs to ratepayers; and (2) PG&E's proposed EE allocation should be rejected as it does not accurately reflect the benefits accrued to various customer classes. More specifically, SBUA contends that EE resource program costs are not directly allocated to a customer class as directed by D.95-12-053 and should therefore be revised. Further, SBUA notes that as EE non-resource program costs and other EE program costs are, in part, modeled around EE resource cost allocation, those costs should be revised as well in order to fairly distribute costs across customer classes. Also, SBUA asserts that PG&E should "evaluate demand load" instead of "normal load" in determining demand related distribution costs.¹⁸ SBUA supports TURN's recommendations that PG&E revise its allocation of EE shareholder incentives based on EE allocation.

SBUA recommends that PG&E be directed to treat all small commercial customers as customers that will potentially face unforeseen bill impacts given the significant rate increases affecting the entire class. SBUA further recommends that PG&E should be directed to implement targeted educational and outreach measures regarding EE programs, especially those programs that can help lower small commercial customers bills in the long run. SBUA argues that targeted EE programs should consider small commercial customers' gas use, geographic region, and type of business; and that PG&E begin tracking small commercial customers' awareness of EE programs in order to assist PG&E in refining its outreach efforts.

¹⁸ See SBUA's Opening Brief at 4.

Lastly, SBUA argues that the rate reform proposals put forth in this GCAP Application are skewed against the commercial customers' class in favor of other ratepayer classes.¹⁹

3.1.7. Indicated Shippers

Indicated Shippers submitted its Opening Brief to address the ESA program allocation proposal presented in this Application. As argued by Indicated Shippers, PG&E plans to separate the ESA program costs from the costs of other EE programs based on new benefits data, but continue the practice of allocating ESA program expenditures to residential customers using the "direct benefit" approach.²⁰ Indicated Shippers noted that Cal Advocates and TURN oppose PG&E's allocation practice, proposing instead to allocate these costs consistent with the allocation methodology for CARE program costs.

Indicated Shippers agrees with PG&E's conclusion and proposal in this Application, contending that PG&E's proposal more accurately reflects the nature of the ESA program as an EE program, rather than a low-income program. Further, Indicated Shippers argues that PG&E's approach best addresses statutory requirements and long-standing Commission policy regarding EE. Accordingly, Indicated Shippers request Commission approval of PG&E's continuing ESA allocation methodology, which it argues "is in line with previous Commission decisions regarding [Demand Side Management] DSM costs" in D.95-12-053,²¹ and "PG&E has continued to use the current direct benefits cost allocation methodology since the original decision in D.95-12-053."²²

¹⁹ See SBUA's Opening Brief at 6-7.

²⁰ See PGE Exhibit-1, at 4A-2.

²¹ Citing D.95-12-053 at 40.

²² See Indicated Shippers' Opening Brief at 2-5.

Accordingly, Indicated Shippers concluded that it strongly supports PG&E's proposed separation and allocation of ESA program costs to the residential customer class, in conformance with long-standing Commission policy.

4. Resolution of the Issues

4.1. Issue 1 - Should PG&E's proposal to adopt the 2015 GT&S gas throughput forecast be adopted for this GCAP?

Throughput for the gas distribution system is in the scope of this GCAP proceeding and PG&E's 2019 GT&S proceeding (A.17-11-009). Rather than litigate the throughput issue simultaneously in the two proceedings, PG&E agrees with Cal Advocates' proposal to use Cal Advocates' throughput forecast submitted in A.17-11-009 on an interim basis while throughput is litigated and decided in A.17-11-009, and the Commission issues its final decision in A.17-11-009.²³ PG&E and Cal Advocates further agree that once the final 2019 GT&S decision is approved in A.17-11-009, the final/adopted 2019 GT&S throughput forecast would be used to implement GCAP rates in the future. Accordingly, there appears to be no current dispute between PG&E and Cal Advocates in this proceeding regarding which throughput forecast should be adopted.

Other than Cal Advocates and PG&E, SBUA is the only other party that addressed the throughput forecasting issue in this proceeding. SBUA criticized PG&E's use of peak day factors in a normal year as an outdated approach for use in cost allocation of a gas distribution system since such a system may be unable to meet loads in years "with a day colder than normal," which according to

²³ Cal Advocates proposed the use of its throughput forecast for the 2019 GT&S case for this GCAP in Exhibit ORA-02 (See page 1, lines 16-18). See also, Exhibit PGE-1, at 1-3, lines 1-3; and Exhibit PGE-3B. In Exhibit PGE-3, at 2-1 and 2-2, PG&E indicated that Cal Advocates' proposal is acceptable to PG&E on an interim basis while throughput is litigated and decided in A.17-11-009.

SBUA could be roughly half the years. SBUA believes that the better system is to use “design load” rather than normal load for cost allocation.²⁴

PG&E explains SBUA’s use of “design load” to mean the studies performed by the gas engineers for physical gas distribution system planning, in which one of two primary design days: (1) the abnormal peak design day (APD), defined as the coldest temperature that may be exceeded once every 90 years (APD 1-day-in-90 year); or (2) the coldest winter day (CWD), defined as the coldest temperature that may be exceeded once every two years, on average. According to PG&E, these particular engineering studies do not have the level of granular details that would be needed to calculate the class classifications for cost allocation.²⁵ Thus, PG&E argues that the design load system, particularly the APD 1-day-in-90 year recurrence interval studies would unfairly allocate more costs to the core customer class for being highly sensitive to weather, as the studies assume 100 percent curtailment of non-core customer classes.²⁶ Accordingly, PG&E concludes that the Average Temperature Cold Day or Cold Temperature Cold Day allocations it used in its proposal are reasonable methods for allocating the distribution function costs since neither is an extreme planning criteria.²⁷

Lastly, PG&E pointed out that the 2015 GT&S decision, D.16-06-056, Conclusion of Law 236, found that design criteria “does not reasonably reflect the costs imposed by core and noncore customers for this shared resource.” For

²⁴ Exhibit SBUA-1, at 3, lines 17-21.

²⁵ Exhibit PGE-3, at 2-7, lines 7-10.

²⁶ Exhibit PGE-3, at 2-7, lines 10-15.

²⁷ See PG&E’s Opening Brief at 4-5 (referencing Exhibit PGE-3, at 2-8, lines 5-8).

these reasons, PG&E urges the Commission to reject SBUA's position opposing the use of peak day factors based on a normal year.

Pursuant to the procedural record, we do not find adequate support for developing a throughput forecast for PG&E's gas distribution system as proposed by SBUA in this GCAP rate Application proceeding.

As provided above, we find that PG&E and Cal Advocates' proposal not to litigate the issue of whether the 2015 GT&S gas throughput forecast should be adopted for this GCAP proceeding but defer the issue to be addressed in A.17-11-009, is reasonable.

Accordingly, the throughput forecast adopted in the final 2019 GT&S decision (D.)19-09-025)²⁸ shall be used to implement the GCAP rates presented in this Application.

4.2. Issue 2 - Should PG&E be authorized to update its gas distribution throughput forecasts approved in future GT&S cases, on an ongoing basis, via a Tier 2 advice letter filing?

PG&E requests authority to incorporate, on an ongoing basis, the most recently approved GT&S throughput forecasts in future GT&S cases into the then effective GCAP allocations via a Tier 2 advice filing.²⁹ According to PG&E, "PG&E's proposal to adopt the throughput forecasts in its GT&S rate cases for future GCAP allocations [will prevent] the throughput used in GCAP ratemaking from becoming stale."³⁰

²⁸ Decision Authorizing Pacific Gas and Electric Company's 2019-2022 Revenue Requirement for Gas Transmission and Storage Service, issued on September 23, 2019.

²⁹ Exhibit PGE-1, at 1-7.

³⁰ Exhibit PGE-1, p.1-6.

In its Opening Brief, PG&E states that its GT&S throughput forecast proposal “has several benefits,”³¹ including: (1) placing litigation of gas throughput in the GT&S cases, rather than the GCAP case, as “the GT&S Rate Cases are the superior proceeding to litigate forecasts due to the impact of the proposed GT&S revenue requirement on the throughput forecast;”³² and (2) preventing stale throughput forecasts from increasing balancing account volatility (beyond that caused by weather or economic conditions). Thus, PG&E proposes to file a Tier 2 advice letter within 60 days of a GT&S decision adopting a new throughput forecast to update its gas distribution throughput forecasts. According to PG&E, the advice letter would provide the impacts of incorporating the new adopted GT&S throughput and billings forecast on the GCAP adopted rates, and the process would include an update to the Cold Winter Day Measure study based on the input of the newly calculated forecast.³³ The most recently approved GT&S forecast could be used for each January 1 annual gas true-up (AGT) to allocate the gas distribution revenue requirement and to revise gas distribution rates.

We are persuaded by PG&E’s arguments in support of this proposal. Additionally, neither Cal Advocates³⁴ nor any other party in this proceeding opposes PG&E’s proposal to use future approved GT&S throughputs for GCAP cost allocation and rate revision purposes in the future. Accordingly, PG&E’s proposal to utilize and/or incorporate the most recently approved GT&S

³¹ See PG&E’s Opening Brief at 57-58.

³² Exhibit PGE-1, at 2-20, lines 2-4.

³³ Exhibit PGE-1, at 2-18 line 13 to 2-19, line 2.

³⁴ Exhibit ORA-5A, at 99, lines 11-12.

throughput forecasts into the then effective GCAP allocations via a Tier 2 advice filing is adopted.

4.3. Issue 3 - Should PG&E be authorized to implement the cost allocation proposal set forth in its testimony, using embedded costs, or should another methodology be used to determine cost allocation?

This is a major issue of interest to the parties in this proceeding. TURN, SBUA, Cal Advocates and PG&E submitted testimony addressing this issue; they also addressed this issue in their respective Briefs.

SBUA argues in favor of PG&E's proposed embedded cost allocation methodology, and contends that PG&E's proposed embedded cost allocation methodology be approved by the Commission - because it most accurately reflects cost causation principles, and is thus the most reasonable cost allocation methodology, applicable to all ratepayers. SBUA argues that the embedded cost allocation methodology "is the most common approach to cost-allocation in North America," and is thus appropriate in this case.³⁵ At the hearing, SBUA witness, Paul Chernick, testified that the Commission should move towards the embedded cost methodology due to rate fairness considerations to its members.³⁶

SBUA opposes the alternative marginal cost methodologies proposed by Cal Advocates and TURN, in that they do not directly address the issues of fairness in cost recovery. Accordingly, SBUA argues that Cal Advocates' proposed marginal cost methodology should be rejected due to the resulting increase in cost allocation that would result for small commercial customers: a

³⁵ See SBUA's Opening Brief at 10; *citing* Exhibit SBUA-2, at 3; Tr. V11, at 1111 to 1126 for a general discussion of the advantages of the embedded cost methodology over the marginal cost methodology in the instant GCAP proceeding.

³⁶ Hearing Transcript, at 1141, line 17 (Chernick).

7.9% increase to their bundled rate, and a 9.4% increase for those small commercial customers who purchase gas from a third party.³⁷

Nonetheless, SBUA argues that if the Commission decided to adopt a marginal cost allocation methodology in this proceeding, the methodology proposed by Cal Advocates in its testimony should be adopted rather than TURN's "cherry-picked marginal cost recommendation" designed to benefit residential ratepayers at the expense of small commercial customers."³⁸ SBUA argues that Cal Advocates' proposal results in an allocation of costs to small business customers that is similar to the PG&E embedded allocation, whereas the TURN approach results in rate shock to small commercial customers. SBUA contends that the avoidance of rate shocks is a well-established Commission ratemaking goal.³⁹

On this issue, Cal Advocates argues that the Commission should continue to use the marginal cost methodology to allocate gas distribution revenue requirements to customer classes, instead of PG&E's proposed migration to the embedded cost methodology. Specifically, Cal Advocates recommends that the Commission should adopt a DTIM-based MDCC estimate and NCO MCAC⁴⁰ marginal costs contending that doing so would result in the most reasonable

³⁷ Citing, Exhibit ORA-5-A, Attach. J at 14, Table Showing Cal Advocates Marginal Cost Adjusted Updated for Errata; *See also* Exhibit ORA-5A, at 9, Table 5-1 (showing Cal Advocates' Gas Distribution Revenue Requirement has an increase of \$1,000 for small commercial customers compared to PG&E).

³⁸ *See* SBUA's Opening Brief at 11-12.

³⁹ *See, e.g.*, Decision 18-08-013, at 37 ("Rates should be **stable** and understandable and provide stability, simplicity and customer choice") (emphasis added), *citing* D.17-08-030, at 30-31; D.17-01-006, at 37; D.15-07-001, at 27-28 (noting that these ratemaking principles were developed after receiving extensive input from parties).

⁴⁰ As used here, **DTIM** means "Discounted Total Investment Method;" **MDCC** means "Marginal Distribution Capacity Cost;" **NCO** means "New Customer Only;" and **MCAC** means "Marginal Customer Access Capacity."

revenue allocation for PG&E's customers and the lowest, reasonable, cost-based rates for residential customers.⁴¹ Furthermore, Cal Advocates recommends the Commission adopt its residential and non-residential gas rates, revenue allocation and rate design proposals.⁴²

Cal Advocates takes issue with PG&E's use of an alternative MDCC value, because PG&E's MDCC estimate using the National Economic Research Associates, Inc. (NERA)⁴³ regression approach is negative.⁴⁴ Cal Advocates disagrees with PG&E's proposal to use the marginal cost-based methodology because it obtains a negative coefficient when using the NERA regression method for the MDCC estimate.⁴⁵ Cal Advocates notes that in D.92-12-058, the Commission adopted the Long Run Marginal Cost (LRMC) methodology for the gas distribution cost allocation of California's gas utilities. Cal Advocates argues

⁴¹ See Cal Advocates' Opening Brief at 28; and Exhibit ORA-5A, at 98, lines 22-26.

⁴² See Exhibit ORA-5A, Sections III.A and B.

⁴³ In D.92-12-058, the Commission identified four methods for estimating the marginal cost of capital investments, including: (1) present worth method; (2) total investment method; (3) the NERA regression method; and (4) discounted total investment method (DTIM). After evaluating the record, the Commission adopted the NERA regression method to calculate the marginal capital costs for distribution in D.92-12-058 (See Conclusion of Law 3), describing the NERA regression methodology as "a model developed by NERA to obtain a marginal unit capital cost by regressing the cumulative changes in investment with cumulative changes in load". (See D.92-12-058 at 32.)

⁴⁴ According to Cal Advocates, the NERA regression marginal costs method produces negative results with current data and is therefore not usable. (See Exhibit ORA-5A, at 9, lines 15-21, through 10, lines 1-8, citing PG&E Response to data request ORA-25, Q.01 subpart 3: "PG&E's MDCC estimate using NERA regression approach is negative. However, in order to illustrate the impact of using marginal cost based approach for revenue allocation, and its comparison with embedded cost based revenue allocation, PG&E used an MDCC estimate from D.05-06-029 which states that the MDCC estimate is \$141.75 per Dthd, in 2005 dollars. PG&E used an appropriate escalation factor to convert this estimate in 2018 dollars. PG&E used the escalated value of 212.47 in its work paper (for the details of the calculation, please refer to the excel file labeled GCAP2018_DR_ORA_Q01-part 3, atch01). However, after conducting a recent review of this estimate, PG&E finds that a more appropriate value is \$213.90 per Dthd.")

⁴⁵ Exhibit ORA-5A, at 25, lines 5-10.

that the Commission adopted the NERA regression method of analysis in order to estimate the MDCC component of the LRMC.⁴⁶

Cal Advocates contends that the Commission has found that other marginal cost methods could be considered, such as the Discounted Total Investment Method (DTIM).⁴⁷ Cal Advocates note that although the NERA regression method was ultimately the approved method for estimating gas distribution marginal costs in D.92-12-058, there were several other marginal cost methods considered by the Commission in the same decision.⁴⁸

In addition, Cal Advocates note that PG&E was able to calculate and provide an MDCC value based on a DTIM analysis on a system-level basis, and that it (Cal Advocates) now recommends the DTIM-based marginal costs analysis for PG&E's MDCC marginal cost allocation.⁴⁹

Cal Advocates concludes that PG&E has not presented a sufficient basis in this record to abandon the principles of economic efficiency and cost causation behind the Commission's long-standing adoption of the marginal cost approach in favor of the embedded cost method.⁵⁰ Thus, Cal Advocates argues that the Commission should adopt Cal Advocates' recommended DTIM-based MDCC

⁴⁶ Exhibit ORA-5A, at 25, lines 5-10.

⁴⁶ Citing Exhibit ORA-5A, at 11, lines 12-14, citing D.92-12-058 at 75; and Ordering Paragraph 1; Background information regarding the LRMC and the embedded cost-based methodology is included in Exhibit ORA-5A, Appendix A.

⁴⁷ Exhibit ORA-5A, at 36, lines 14-16. (See also, D.95-12-053, at page 37, where the Commission indicates a willingness to consider incorporating other approaches to estimate the marginal cost of capital investments. In that decision, the Commission directed PG&E to provide a scenario that incorporates the use of the DTIM for the estimate of the marginal cost of capital investments.)

⁴⁸ Exhibit ORA-5A, at 26

⁴⁹ Exhibit ORA-5A, at 29, lines 11-13, citing PG&E response to data request "ORA-29", Question 01.

⁵⁰ Exhibit ORA-5A, at 25, lines 3-6.

estimate and NCO MCAC marginal costs as the reasonable revenue allocation method for PG&E's customers, and reject PG&E's embedded cost proposal.

In support of its arguments, Cal Advocates presented four tables (in its Opening Brief at 13, 14, 15 and 16) comparing the resulting numbers for its marginal cost-based recommendation using the DTIM and PG&E's embedded cost-based recommendation.

In regards to this issue, TURN argues PG&E's embedded cost of service methodology should be rejected. Instead, TURN believes Cal Advocates' marginal cost study based on the NCO method should be adopted, as updated for the new tax law and cost of capital (while removing smart-meter opt-out costs from revenue cycle services costs). TURN contends that if the embedded cost of service methodology is adopted – contrary to its recommendations – the Commission should adopt TURN's adjustments (to PG&E's proposal) which reduce the residential class allocation by \$23 million.

In its Opening Brief, PG&E sets forth its proposal to implement a new cost allocation methodology using the embedded cost method.⁵¹ PG&E contends that: (1) both the embedded cost and marginal cost models are acceptable as a matter of principle for gas distribution system cost allocation, if appropriate data are available; (2) the NERA regression marginal costs method produces negative results with current data and is therefore not usable; and (3) PG&E's embedded cost model uses more granular data to identify cost drivers and, as such, should be adopted in this proceeding.

PG&E argues that the method to allocate costs to customer classes depends on the assumptions and data inputs used in the model. There are generally two types of models: (a) models that develop marginal costs; and (b) models that take

⁵¹ See PG&E's Opening Brief at 5-8.

an embedded cost approach. PG&E contends that, to be useful, both types of models must be supported by relevant input data that is not stale. PG&E concedes that either of the model types is acceptable for purposes of gas distribution cost allocation.

PG&E argues that Cal Advocates' proposal to use the DTIM marginal cost modeling relies on an unreasonably high DTIM value and data inputs that are not appropriate. PG&E claims that Cal Advocates' 2009 regression "check" analysis relies on stale data that predates the sustained throughput reductions seen since 2014 and that Cal Advocates' argument that safety and capacity replacement costs for existing capacity belong in marginal cost analysis, is incorrect.

Likewise, PG&E criticizes TURN's proposal, arguing that TURN's analysis is deficient because TURN "based its written testimony on [Cal Advocates'] marginal cost study solely on methodology, without information about the numbers or results."⁵² PG&E further disagrees with TURN's proposal regarding: the adjustments it made related to PG&E's embedded costs for FERC accounts; TURN's other adjustments to the embedded cost proposal, and TURN's proposed adjustments to PG&E illustrative marginal costs.

PG&E concludes that Cal Advocates' and TURN's marginal cost proposals shift costs to the distribution line function and produce unbalanced result; as such, neither Cal Advocates' nor TURN's marginal cost recommendations are reasonable. PG&E urges the Commission to reject Cal Advocates' and TURN's cost allocation proposals and for the Commission to adopt PG&E's embedded cost allocation proposal in this GCAP.

⁵² See PG&E's Opening Brief at 13.

The expert witnesses that testified on behalf of TURN and SBUA in this proceeding acknowledged that the marginal cost and embedded cost models are both appropriate.⁵³ PG&E also indicated that “for purposes of gas distribution cost allocation, both types of models, purely on the question of model type, are acceptable.”⁵⁴ We agree with the parties and therefore concludes that the record in this proceeding established that both the marginal cost and embedded cost methodologies are acceptable for purposes of cost allocation. Determining which methodology is “better” depends on the circumstances involved in each case.⁵⁵

⁵³ Hearing Transcript at 863, lines 7-8 (TURN’s Witness, William Marcus). Mr. Marcus has more than 30 years of experience working with marginal cost and embedded cost models.

⁵⁴ PG&E’s Opening Brief at 5: “[B]oth the experts for TURN and for SBUA testified that marginal cost and embedded cost models are acceptable.” According to the parties, the question in this case revolves around the following: 1) what data is available to run the different models; 2) the appropriateness of that data utilized; and 3) whether the results are reasonable in light of the data used?

⁵⁵ See PG&E’s Opening Brief at 5 (*citing* Exhibit SBUA-2, at 6, lines 17-26, where, SBUA witness Chernick testified that when California originally adopted marginal-cost pricing for electricity in the 1970’s when embedded revenue requirements were low and marginal costs of generation capacity and energy were high, marginal cost allocation may have been useful in assuring that all classes were allocated enough revenue to allow their rate designs to reflect the high costs of new supplies, such as for nuclear plants. However, he does “not see any similar need for marginal-cost pricing for California gas utilities at this time.” (See also, Hearing Transcript at 863, lines 4 -17 (Marcus).)

We have considered the circumstances involved in this GCAP proceeding and have evaluated the testimony submitted by the parties. We note the concerns raised by TURN's expert that PG&E's embedded cost methodology proposal in this proceeding "lacks extensive documentation which (is) typically found in embedded cost models adopted in other states."⁵⁶ We agree with TURN's assessment of the record herein. The record in this proceeding has insufficient support for us to adopt PG&E's embedded cost allocation proposal. Accordingly, PG&E's embedded cost proposal is rejected, as further discussed below.

As pointed out by TURN, some customers are conserving due to necessity and affordability, and if PG&E's minimum bill proposals are adopted, those customers who were conserving due to affordability - who, for example, are using only 50% of average, will experience a 17.3% increase in monthly bills, "an extremely large increase for residential customers, especially those who are at risk of disconnection."⁵⁷ In addition, TURN contends, and the Commission finds, that PG&E's proposal for a \$15 minimum bill raises costs for approximately 73% of non-CARE residential customers and therefore creates concerns of affordability.

Accordingly, we reject the embedded cost methodology proposed by PG&E in this proceeding, "given the drastic rate impacts on the residential customers during a time when affordability is increasingly a concern, and given that PG&E's embedded cost methodology still needs further refinement and lacks sufficient documentation."⁵⁸

⁵⁶ TURN's Opening Brief at 5.

⁵⁷ TURN's Opening Brief at 34-36.

⁵⁸ TURN's Opening Brief at 5.

Based on the procedural record, we agree with Cal Advocates' and TURN's position indicating that the Commission should continue to use the marginal cost allocation methodology that was initially adopted in D.92-12-058. We find that the marginal cost allocation methodology should continue to be utilized to allocate revenue requirements to customer classes in this GCAP.

We accept Cal Advocates' recommendation that the Commission adopt its marginal cost study, but based on the Rental Method as proposed by PG&E, updated for the new tax law and the cost of capital, while removing smart-meter opt-out costs. We adopt the analysis and recommendations set forth in Cal Advocates' Opening Brief, as further discussed below.

We rely on Cal Advocates' final numbers from its DTIM-based marginal cost study and/or recommendations, reproduced in Tables 3 and 4 in its Opening Brief (from Exhibit ORA-5A at 8, Table 5-1a; and Exhibit ORA-5A at 9, Table 5-1b, respectively),⁵⁹ as modified and further discussed below. These tables are represented herein as Table 1 and Table 2, below.

⁵⁹ See Exhibit ORA-5A, at 5, lines 1-4. Cal Advocates indicated that it verified PG&E responses in data request "ORA-29," where PG&E's data response to Cal Advocates presents a different approach to marginal cost than the NERA regression method. Cal Advocates obtained those responses from PG&E in its follow-up to data request "ORA-29." Cal Advocates' final recommendations are those shown in column "b" of Tables 3 and 4.

Table 1⁶⁰
Cal Advocates Table - Updated for Errata
Results of Cost Allocation: Gas Distribution Revenue Requirement
(in \$ Thousands)

Ln No.	Description (a)	Cal Advocates Proposal (b)	PG&E Proposal (c)	Amount PG&E > Cal Advocates (d = c - b)
1	Residential	\$1,338,922	\$1,391,558	\$52,635
2	Small Commercial	316,329	316,329	\$1
3	Large Commercial: Distribution	17,318	10,768	(\$6,550)
4	Uncompressed NGV1	7,984	4,793	(\$3,190)
5	Compression Cost G-NGV2	4,705	3,914	(\$791)
6	Total Core	1,685,258	1,727,363	\$42,104
7	Industrial Distribution	74,845	42,964	(\$31,881)
8	Industrial Transmission	20,710	11,231	(\$9,479)
9	Electric Gen	3,969	3,565	(\$404)
10	Total Wholesale	680	341	(\$340)
11	Total non-core	100,205	58,100	(\$42,104)
12	Total	\$1,785,463	\$1,785,463	\$0

⁶⁰Exhibit ORA-5A, at 8, Table 5-1a.

Table 2⁶¹
Cal Advocates Table - Updated for Errata
Results of Cost Allocation: Gas Distribution Revenue Requirement
(in Percent)

Ln No.	Description (a)	Cal Advocates Proposal (b)	PG&E Proposal (c)	Amount PG&E >Cal Advocates (d=c-b)
1	Residential	74.990%	77.938%	2.948%
2	Small Commercial	17.717%	17.717%	0%
3	Large Commercial: Distribution	0.970%	0.603%	-0.367%
4	Uncompressed NGV1	0.447%	0.268%	-0.179%
5	Compression Cost G-NGV2	0.264%	0.219%	-0.044%
6	Total Core	94.388%	96.746%	2.358%
7	Industrial Distribution	4.192%	2.406%	-1.786%
8	Industrial Transmission	1.160%	0.629%	-0.531%
9	Electric Gen	0.222%	0.200%	-0.023%
10	Total Wholesale	0.038%	0.019%	-0.019%
11	Total non-core	5.612%	3.254%	-2.358%
12	Total	00.00%	100.00%	0.0%

The above tables provide a comparative summary of the resulting revenue allocation numbers derived from Cal Advocates' recommendation. They are marginal cost-based allocations using the DTIM method and PG&E's Proposed Gas Distribution Cost Allocation on the basis of an embedded cost-based method; and reproduce (from Attachment C of Exhibit ORA-5A) the comparative summaries of cost allocation methods.⁶²

⁶¹ Exhibit ORA-5A, at 9, Table 5-1b.

⁶² See Cal Advocates' Opening Brief at 10; Exhibit PGE-1, (PG&E GCAP testimony), at 3-7 through 3-8), Tables 3-4 and 3-5. Cal Advocates provides a background discussion of these methodologies in Exhibit ORA-5A, Appendix A. PG&E's testimony provides a background discussion on the marginal cost methodologies based on the NERA Regression method to estimate the MDCC and the MCAC cost. (See Exhibit PGE-1, Appendix A.)

As shown in Table 1 above, PG&E's embedded cost proposal will result in an allocation of about \$52 million more to residential customers than would otherwise be allocated to residential customers under a marginal cost method. The small commercial customer class will experience either the same, or similar, allocation as they currently have. PG&E's embedded cost proposal will allocate slightly less revenue to large commercial, distribution, and Core NGV and G-NGV2-Natural Gas Service Rate customers.⁶³ PG&E's core customers will be allocated approximately \$42 million more under PG&E's embedded cost proposal, while the total allocation to noncore customers will be reduced by approximately \$42 million, as presented in Cal Advocates' testimony.

Table 2 above shows that core customers will be allocated 94.388 percent of total costs under Cal Advocates' marginal cost recommendation, and 96.746 percent under PG&E's embedded cost proposal resulting in an allocation of about 2.358 percent more to core customers under PG&E's embedded cost proposal.

Furthermore, under PG&E's proposed embedded cost-based allocation, residential customers could bear up to 77.9 percent of the PG&E gas distribution revenue requirement, compared to 74.990 percent under Cal Advocates' proposal⁶⁴- a difference of about 2.9 percent. (*See* Table 2, column (d) at line 1.).

Overall, under PG&E's embedded cost proposal, core customers (including residential, small commercial, large commercial distribution, core

⁶³ "G-NGV2" refers to, the Natural Gas Service Rate /Gas Schedule for core compressed natural gas customers. G-NGV2 rates are charged to third-party customers using PG&E's NGV stations that are open to the public for refueling vehicles. PG&E customers who own and operate their own NGV fueling station can purchase gas transportation service under schedule G-NGV1.

⁶⁴ *See* Table 2 above, column (c) and (b), respectively.

NGV, and compression cost for G-NGV2 customers) would be allocated 2.358 percent more of PG&E's gas distribution revenue requirements (about \$42 million more), while non-core customers would be allocated approximately \$42 million less.⁶⁵ These calculations are performed using the total revenue requirement previously determined in the PG&E 2017 GRC Decision in D.17-05-013 (in A.15-09-001).⁶⁶

Cal Advocates also presented information in its Opening Brief and testimony, showing comparative marginal cost numbers, as presented by PG&E in its testimony, based on PG&E's marginal cost adopted in 2005 and escalated to 2018 numbers.⁶⁷ Cal Advocates' Table 5 shows a summary of the Gas Distribution Cost Allocation forecast results (in 2018 Dollars) which compares PG&E's Marginal Cost Adopted in the 2005 Biennial Cost Allocation Proceeding, should the marginal cost methodology be retained, and PG&E's Proposal in 2019 for the cost allocation of the Gas Distribution function. In its Table 6,

⁶⁵ See Table 1, above (updated for errata) at column (d) at line 11.

⁶⁶ Exhibit ORA-5A, at 6, line 19-21 (citing PG&E Response to data request ORA-03, Question 2(j)).

⁶⁷ See Cal Advocates' Opening Brief at 15 and 16, Tables 5 and 6, respectively. As summarized by Cal Advocates in its Opening Brief at 10, Chapter 3 of PG&E's testimony, Exhibit PGE-1, presents the cost allocation results for Gas Distribution-Level Revenue Requirements based on the embedded cost method proposal. Chapter 6 of PG&E's testimony shows different results because this portion shows the consolidated impacts of several PG&E proposals. The update to throughput and the cost allocation results for Gas Distribution-Level Revenue Requirements are in Chapter 3 as well as the adopted gas distribution-level Pension and Cost of Capital cases (see page 6-2). In addition, Chapter 6 consolidates the results of PG&E's proposals which update the allocation of various gas transportation revenue requirements, namely, the Energy Efficiency (EE) and Energy Savings Assistance (ESA) programs, the update to the Electric generation (EG) California Public Utilities Commission (CPUC) fee (see page 6-1), the updates to the Core Brokerage Fee (CBF) and the G-NGV2 Compression Cost (see page 6-2). See also, Exhibit ORA-03 for Cal Advocates' complete EE/ESA recommendations on these proposals incorporated in PG&E's Chapter 6, and to Section III.A.1, of Exhibit ORA-5A, on the CBF and G-NGV2, and to Section III.A.3, of Exhibit ORA-5A, on the CPUC Fee.

Cal Advocates presents the results of the costs associated with the Gas Distribution Cost Allocation forecast and the comparison illustrated in Table 5, in terms of percentages. By and large, we are persuaded by Cal Advocates' thorough and extensive work on this issue.

However, we are persuaded by PG&E's argument that Cal Advocates' MDCC estimate value of \$839.87 per Dth per day is very high and outdated. It may cause most of the gas distribution revenue (from the adopted GRC Phase 1 gas revenue requirement) allocation to be driven heavily by peak day throughput, and overshadow price signals of cost drivers of the Service/Regulator/Meter and Revenue Cycle Services, thus leading the revenue allocation to be significantly biased.⁶⁸ A more current DTIM value of \$373.74 per Dth per day was calculated in PG&E's GRC Phase 1.⁶⁹ We also agree with PG&E that substituting the NCO method used by Cal Advocates in its marginal cost study with the Rental Method will produce results that are more fair across customer classes and will avoid disproportionate rate impacts to customer classes that have few new entrants.⁷⁰ Accordingly, we adopt Cal Advocates' DTIM-based marginal cost study but with DTIM value of \$373.74 per Dth per day, as used in PG&E's 2017 GRC Phase I application,⁷¹ and substituting the NCO method used in Cal Advocates' study with PG&E's proposed Rental Method.

Accordingly, based on this record, the Commission finds that an updated DTIM-based MDCC estimate and Rental Method-based MCAC marginal costs

⁶⁸ See Exhibit PGE-3, at 3A-10, lines 5-19.

⁶⁹ Exhibit PGE-3, at. 3A-7 line 28 to 3A-8, line 6.

⁷⁰ See PG&E's Comments on PD (Sept. 3, 2019), at 1, and 9-14.

⁷¹ Exhibit PGE-3, at. 3A-7 line 28 to 3A-8, line 6.

will result in the most reasonable revenue allocation and the most reasonable cost-based rates for PG&E customers,⁷² as discussed above. Accordingly, we adopt Cal Advocates' marginal cost study, but based on the Rental Method; updated for the new tax law and cost of capital, while removing smart-meter opt-out costs from the revenue requirement; and an updated DTIM value of \$373.74 per Dth per day as provided in PG&E's 2017 GRC Phase I application, as discussed above.

Nonetheless, we recognize the arguments made by PG&E in this record suggesting that gas utility capital infrastructure cost is rising while throughput is declining, and that these and other factors raised in this record may have significant impacts on revenue collection for California for gas utilities. Accordingly, this record supports a conclusion that the Commission may, at some point in the future, open a rulemaking in order to examine the revenue collection issues California gas utilities will increasingly face; consider the tradeoffs between establishing a larger minimum transportation charge, a minimum bill, or a fixed charge; rate structures including volumetric transportation rate in combination with fixed monthly transportation charges; consideration of impacts on affordability and the embedded cost allocation proposal made in this proceeding by PG&E as a way of addressing these issues.

4.4. Issue 5 - Should PG&E's proposal to reduce the residential Tier 1 and Tier 2 bundled rate differential to 1.2 over four years be approved?

PG&E proposes to return the residential bundled Tier 1 and Tier 2 differential to 1.2, which was established in the settlement approved in D.05-06-020. Decision 05-06-020 established that the transportation portion of the

⁷² See Cal Advocates' Opening Brief at 28; and Exhibit ORA-5A, at 98, lines 22-26.

tiered rates be set at a 1.6 to 1 ratio, as long as a bundled tiered ratio of at least 1.2 to 1 was achieved. In its testimony, PG&E provided that, in D.10-06-035, the bundled 1.2 to 1 portion of the test was omitted “as a simplification given a monthly pricing adjustment for rates each month and a desire not to change the transportation rate and rate components monthly for the 1.2 bundled ratio, but that subsequent to D.10-06-035, the tier ratio calculation has been based on a transportation rate ratio of 1.6 to 1. According to PG&E, the use of the 1.6 ratio has resulted in a 1.41 bundled current tier ratio, which is unintended and excessive.”⁷³

This issue is not disputed. Cal Advocates indicated that it does not oppose PG&E’s request.⁷⁴ In its prepared testimony, Cal Advocates noted that the Commission typically determines a tiered rate differential that achieves the desired balance on a case-by-case basis, while weighing other factors that will affect rates.⁷⁵ Cal Advocates acknowledges that the Commission has found that a flatter tier structure promotes economic efficiency goals of rate design and is more equitable because it reduces built-in subsidies.⁷⁶ Cal Advocates supported its conclusion by referring to the Commission’s interest in the legislature’s concern with bill volatility in D.93-06-087, Finding of Fact 26.⁷⁷

Through the testimony of its witness (Kenneth E. Niemi), PG&E established that the relationship between gas procurement rates and gas transportation rates has changed fundamentally. Since 2009, procurement rates

⁷³ Exhibit PGE-1, at 7-8, line 2 to 7-9, line 12.

⁷⁴ See Exhibit ORA-5, at 84, lines 6-8; 87, lines 15-16.

⁷⁵ Exhibit ORA-5, at 85, lines 14-16.

⁷⁶ See Exhibit ORA-5, at 85, lines 7-14.

⁷⁷ See D. 93-06-087, 50 CPUC 2d 1, 73.

have fallen from approximately \$0.50 to \$0.60 per therm to the range of \$0.20 to \$0.40 – a level not seen on a sustained basis since the early 2000’s.⁷⁸ Further, PG&E asserted that transportation rates have increased over the years for the following reasons: costs of enhanced safety mandates; replacement costs for aging facilities; declining usage per customer (residential and others) due to increased energy efficiency; under-collection of transportation revenues due to a prolonged period of warmer than normal temperatures; and late implementation of amortizations for new revenue requirements approved in PG&E’s GRC and GT&S proceedings.⁷⁹

The record in this proceeding supports PG&E’s request to reduce the residential Tier 1 and Tier 2 bundled rate differential to 1.2 over four years. This request should be approved, as further discussed below.

In its testimony, PG&E discussed the factors that need to be balanced, while contending that the increasing block rate structure would continue to encourage conservation, as it charges a higher rate for additional usage.⁸⁰ PG&E concluded that its proposal is a balanced, and reasonable, approach when all factors that can influence the inverted rate structure and the tier differential are considered. Cal Advocates’ testimony supports PG&E on this issue. PG&E urges the Commission to approve its proposal herein. We agree with PG&E’s request.

We rely on PG&E’s unopposed and unrebutted testimony to establish that the consequence of the fundamental change in the relationship between gas procurement rates and gas transportation rates has been an increase in the Tier 1 and Tier 2 differential. Since early 2015, this differential has changed and

⁷⁸ Exhibit PGE-1, at 7-10, Table 7-7.

⁷⁹ Exhibit PGE-1, at 7-9, lines 13-27.

⁸⁰ Exhibit PGE-1, at 7-13, lines 1-12.

increased from approximately 44 percent (of the residential gas procurement rate) to equaling over 100 percent. At times, it has been much higher as shown in its Table 7-8 of Exhibit PGE-1. We further rely on PG&E's testimony that this large and unintended tiered differential has contributed to residential bill volatility, with compound impacts during colder-than-normal peak winter months.⁸¹ We therefore find PG&E's request to reduce the residential Tier 1 and Tier 2 bundled rate differential to 1.2 over four years to be appropriate as well as supported by the GCAP procedural record.

Accordingly, we grant PG&E's proposal to reduce the residential Tier 1 and Tier 2 bundled rate differential to 1.2 over four years. PG&E may return to the bundled rate ratio of 1.2 gradually over a 4-year period, beginning with implementation of this decision, as proposed in this Application.⁸²

**4.5. Issue 6 - Should PG&E's proposals regarding residential minimum transportation charges be adopted as follows:
(i) a residential minimum transportation charge of \$15 dollars for non-CARE customer basic service; and,
(ii) a higher super-peak minimum transportation charge of \$45 for non-CARE residential customers with daily peak usage of at least 15 therms?**

In this GCAP Application, PG&E proposes increasing the minimum monthly transportation charge (Minimum Transportation Charge) by implementing a two-tier Minimum Transportation Charge for non-CARE

⁸¹ See Exhibit PGE-1, at 7-9, line 28 to 7-10, line 8, and 7-11, Table 7-8.

⁸² The first step would be to reduce the current 1.41 ratio to a bundled ratio of 1.35. This initial step would be followed by additional reductions in the ratio of 0.05 annually in the Annual Gas True-Up (AGT) until the 1.20 ratio is achieved on a bundled basis for a customer moving from Tier 1 to Tier 2 in a given month. (See Exhibit PGE-1, at 7-11, lines 1-14) To balance achieving the 1.2 ratio goal with limiting the number of transportation rate changes filed each year, PG&E would calculate the necessary transportation rate differential in the AGT process, with the resulting ratio remaining in effect for the rest of the year. (See Exhibit PGE-1, at 7-9, line 28 to 7-10, line 8; and at 7-11, Table 7-8.)

residential customers. PG&E's proposal would increase the existing Minimum Transportation Charge from \$3 per month (established in 2005) to \$15 per month, for the majority of PG&E's non-CARE customers. For a small percentage of residential non-CARE customers with high daily peak demands, PG&E proposes a "superpeak" Minimum Transportation Charge of \$45 per month (Super-User charge).⁸³

In support of its request PG&E contends that, currently, nearly 100 percent of residential transportation revenue is collected in the volumetric rate; and that when the current \$3 Minimum Transportation Charge was adopted in 2005, PG&E's transportation costs of service for residential customers exceeded \$10 per month per customer.⁸⁴ PG&E's witness, Mr. Niemi, indicated that the minimum monthly transportation cost of service for the smallest meter capacities serving about 97 percent of individually metered residential customers currently "exceeds \$15 prior to consideration of any capacity cost associated with the primary distribution system running down neighborhood streets or distribution feeder mains or local transmission capacity costs."⁸⁵ Mr. Niemi further explains that the cost of service using the embedded cost approach is \$16.14 per month;⁸⁶ \$17.79 per month using the Rental Method; and \$11.19 per month when the NCO method is utilized. Finally, PG&E contends that the embedded cost of service for large meters is about \$48.80, and thus in line with its proposed super peak user Minimum Transportation Charge of \$45 per month.

⁸³ See Application at 6.

⁸⁴ Exhibit PGE-1, at 7-15, lines 1-4, and footnote 7. D.05-06-029, at 5.

⁸⁵ See PG&E's Opening Brief at 18 (citing, Exhibit PGE-1, at 7-15, lines 18-23).

⁸⁶ See Cal Advocates' workpaper - Exhibit ORA 05-WP, PG&E response to ORA_003-Informal_mtg3192018, at 5.), and Exhibit ORA-5, at 89, lines 12-14.

PG&E argues that its proposed \$15 Minimum Transportation Charge is consistent with its practice of setting the Minimum Transportation Charge below cost of service. It states that the proposed increases in the Minimum Transportation Charge will serve to reduce bill volatility by reducing volumetric rates by 3.8% for CARE and non-CARE customers thus having significant dollar impact on bills during December and January peak months.

Finally, PG&E contends that the Minimum Transportation Charge will only impact non-CARE customers during months when their transportation bill would otherwise be below the applicable Minimum Transportation Charge level, and when their volumetric transportation charges are not sufficient to cover their minimum cost of service.⁸⁷ In Exhibit PGE-3, Table 6-13 at 6/7/8-21, PG&E provided a graph showing the distribution of isolated bill impacts from the proposed Minimum Transportation Charge across the year.

Cal Advocates and TURN accept the idea that the current \$3 Minimum Transportation Charge should increase; however, both oppose PG&E's \$15 amount due to significant bill impacts on customers. Cal Advocates indicates that its main opposition to PG&E's request to increase the non-CARE residential minimum transportation charge is the magnitude of the increase sought by

⁸⁷ See Exhibit PGE-1, at 7-17, lines 7-11. In support of this argument, PG&E explains about 32,500 customers with open accounts had 0 therms of usage during the 12 months ending April 2017, which means they paid nothing towards their cost of service for meter, regulator, and service line and an additional 280,000 customers had 0 usage for 1-11 months in the same 12 month period. In total, about \$20 million of the \$95 million that PG&E's proposed Minimum Transportation Charge would collect would come from bills that would otherwise be \$0. (See Exhibit PGE-3, at 6/7/8-19, lines 23-29.) Thus, PG&E contends that the \$95 million (anticipated to be collected through the proposed Minimum Transportation Charge increases herein) would be used to reduce the volumetric rate. PG&E concludes that its Minimum Transportation Charge increases serve the idea that all customers need to contribute at least minimally to help pay for transportation services in addition to reducing winter bill volatility and bill level. (See Exhibit PGE-1, at 7-16, lines 1-2; and Exhibit PGE-3, at 6/7/8-29, lines 11-32.)

PG&E. Cal Advocates propose a modest increase of \$1 per month (to \$4 per month)⁸⁸ over the current residential minimum transportation charge of \$3 per month, relying on its DTIM-based MDCC cost estimate and the MCAC NCO estimates.⁸⁹ In support of its position, Cal Advocates argues that PG&E's request, if adopted, would raise the current \$3 minimum transportation charge⁹⁰ to \$15, or a 500 percent increase to the current charge, while noting intense disagreement from PG&E's customers regarding the imposition of a \$15 minimum transportation charge during the various Public Participation Hearings held in this proceeding.⁹¹

Accordingly, Cal Advocates recommends that the Commission deny PG&E's requested "500 percent increase" to the Non-CARE residential customer's minimum monthly transportation charge⁹² and instead approve an increase of the current \$3 minimum monthly transportation charge per month to a marginal cost-based amount of \$4 a month,⁹³ which according to Cal Advocates is consistent with the change in the Consumer Price Index since the Commission adopted the \$3 charge.

TURN also urges that the Commission to reject PG&E's \$15 minimum transportation bill proposal and the proposal to create a Super-User minimum monthly transportation charge of \$45. In its testimony and brief, TURN opposes

⁸⁸ Exhibit ORA-5, at 88, lines 19-21.

⁸⁹ Exhibit ORA-5, at 90, lines 6-12.

⁹⁰ See Exhibit ORA-5A, at 88, lines 14-15, citing D.05-06-029, Finding of Fact #2, at 24.

⁹¹ Citing Public Participation Hearings transcript, Vol 6 (San Jose) at 450, lines 19-23; and Vol 7 (Oakland) at 643, lines 4-7. See also various comments in Vol 7 (Oakland) at 639, line 14 to 652, line 28.

⁹² Exhibit ORA-5A, at 88, lines 16-19.

⁹³ Exhibit ORA-5A, at 88, lines 19-22.

the minimum transportation charge proposals because “they discourage conservation as well as create affordability concerns.”⁹⁴ Thus, TURN argues that the bill impact analysis provides a very strong pricing signal to customers that discourage conservation, since low users would see a hefty increase, while high users would see a slight decrease.⁹⁵ Nonetheless, TURN supported Cal Advocates’ Minimum Transportation Charge recommendation,⁹⁶ or in the alternative using the electric minimum transportation bills’ relationship to baseline amounts as a “yardstick” for establishing the gas Minimum Transportation Charge to summer gas baseline amounts.⁹⁷

Responding to Cal Advocates and TURN, PG&E argues that Cal Advocates’ marginal cost DTIM analysis is deeply flawed, and that the Commission should reject Cal Advocates’ proposed Minimum Transportation Charge increase of \$1 as unacceptable because it results from inaccurate marginal DTIM analysis and is unrealistically low, based on the cost of service principles (discussed above).

PG&E asserts that, while Cal Advocates argues for the recovery of all non-customer function transportation costs to occur volumetrically (with only a small portion of the customer function recovered non-volumetrically),⁹⁸ placing all or a majority of the customer function in the volumetric rate will contribute to bill volatility, since the bill will be higher when usage increases. According to

⁹⁴ See TURN’s Opening Brief at 34-36. According to TURN, if these proposals are adopted, the average bills for customers using 50% of average usage will increase by an average of 17.3%, whereas average bills for customers using 150% of average usage will decrease by 0.26%.

⁹⁵ See Exhibit PGE-4, at 5; Exhibit TURN-1, at 28; and Exhibit ORA-5, at 92-93.

⁹⁶ Exhibit TURN-1, at 27.

⁹⁷ Exhibit TURN-1, at 28.

⁹⁸ Exhibit ORA-5, at 97, lines 2-4.

PG&E, during cold winter months, having a higher volumetric rate will swing bills higher (than if more of the costs were in a non-volumetric rate element⁹⁹ like the proposed \$15 or \$10 Minimum Transportation Charge levels) for non-CARE customers. Thus, PG&E argues that the Commission should approve its proposed \$15 – or at least a \$10 – Minimum Transportation Charge as a way of reducing winter season bill volatility in addition to the baseline season restructuring, already submitted and approved in this Application.

Lastly, PG&E highlighted the fact that TURN had “floated the idea of using the electric minimum transportation bills’ relationship to baseline amounts as a “yardstick” for establishing the gas Minimum Transportation Charge to summer gas baseline amounts.”¹⁰⁰ PG&E indicated that it has evaluated the proposed \$10 electric minimum bill (by TURN) as a possible bell-weather number for the gas Minimum Transportation Charge,¹⁰¹ and believes that “it is reasonable that the non-CARE Basic Service Minimum Transportation Charge for a residential gas customer would be at least as much as that of the minimum delivery bill to an electric customer,” given the fact that electric residential customers have an average total new connection cost (equipment only) of \$1,050.95, compared to \$1,313.39 for gas residential customers.¹⁰²

PG&E concluded that the \$15 Minimum Transportation Charge in its opening testimony, or the \$10 Minimum Transportation Charge in its rebuttal testimony, are the most robust proposals in this proceeding. As such, PG&E urges the Commission to “adopt a gas non-CARE Minimum Transportation

⁹⁹ Exhibit PGE-3, at 6/7/8-15, lines 19-23.

¹⁰⁰ PG&E’s Opening Brief at 52, citing, Exhibit TURN-1, at 28.

¹⁰¹ The electric minimum monthly delivery bill is \$10, approved in D.15-07-011.

¹⁰² PG&E’s Opening Brief at 52.

Charge of at least the same as the electric minimum monthly bill.”¹⁰³ In support of this compromise proposal, PG&E provided a bar graph in Exhibit PGE-7 entitled “Distribution of Net Annual Non-CARE Residential Gas Bill Change (Avg. Monthly Equivalent) \$10 Non-CARE Minimum Transportation Charge,” which shows the distribution of impacts across customers.¹⁰⁴

Regarding PG&E’s proposed new \$45 Super-User charge that would be applicable to non-CARE residential customers with daily peak usage of at least 15 therms, Cal Advocates indicated that it does not oppose the concept of a Super-User charge on the top-tier of individually metered customers who are said to be more expensive to serve.¹⁰⁵ Cal Advocates believes that a higher Super-User charge amount could further incentivize gas conservation, which is consistent with the state’s environmental goals.¹⁰⁶ Nonetheless, Cal Advocates disagrees with the \$45 amount of PG&E’s proposed Super-User charge given the fact that “no customer surveys or consultations have been conducted by PG&E regarding either the \$15 minimum transportation charge or the new \$45 Super-User charge, (and) there is no way to predict customer reaction to this new

¹⁰³ PG&E, Exhibit PGE-3, at 6/7/8-23, lines 24-28; and 6/7/8-24, lines 6-8.

¹⁰⁴ PG&E contends that while the \$10 Minimum Transportation Charge have a narrow range of impacts when compared with the PG&E’s proposed \$15 Minimum Transportation Charge, the \$10 Minimum Transportation Charge does not provide as much benefit in winter bill reductions as the \$15 Minimum Transportation Charge, but does provide a significant impact compared to the \$4 level proposed by ORA and supported by TURN. (See Table 6-17 in PG&E Exhibit 3.)

¹⁰⁵ Exhibit ORA-5A, at 97, lines 20-21. According to Cal Advocates’ Opening Brief at 26-27, these customers are those who have very high maximum daily peak gas therm consumption associated with meters with greater capacity and cost than the normal residential meters (citing Exhibit PGE-1, at 7-2); and the proposal would be implemented for the top 2-3 percent of Non-CARE residential customers whose usage requires more expensive commercial-sized regulators and meters (citing Exhibit PGE-1, at 1-6).

¹⁰⁶ Exhibit ORA-5A, at 97, lines 22-23.

charge.”¹⁰⁷ Thus, Cal Advocates argues that the Commission should adopt its proposed \$12 instead of the \$45 Super-User charge PG&E proposes “to further reduce residential volumetric transportation rates by creating a second-tier non-CARE minimum monthly transportation charge” for the top percentage of individually-metered residential customers.¹⁰⁸

After a careful evaluation of the record in this case, the Commission finds that while the arguments put forward by PG&E in support of its proposal to increase the residential minimum transportation charge (from the current \$3 to \$15, or to \$10 as initially proposed by TURN) for non-CARE customer basic service; and to establish a higher super-peak minimum transportation charge of \$45 for non-CARE residential customers (with daily peak usage of at least 15 therms) could have some merit, the overwhelming persuasion of the record in this proceeding is that PG&E’s proposals should be rejected without prejudice to PG&E’s ability to request approvals from the Commission to make these adjustments to the residential minimum transportation charges in the future.

The Commission is persuaded that the proposed increases in the residential minimum transportation charges will have significant bill impacts on customers as argued and supported by Cal Advocates, and that these proposals may “discourage conservation as well as create affordability concerns,” as argued by TURN.¹⁰⁹

¹⁰⁷ See Cal Advocates’ Opening Brief at 27 (citing Exhibit ORA-5A, at 97, ln. 24 through 98, lines 1-3, citing PG&E Response to data request ORA-15, Q.1(h)).

¹⁰⁸ See Cal Advocate’s Opening Brief at 26 (citing Exhibit PGE-1, at 7-2.)

¹⁰⁹ See TURN’s Opening Brief at 34-36.

Based on Cal Advocates' analysis,¹¹⁰ PG&E's proposed \$15 minimum bill for residential transportation rates will impact at least 58% of total residential customers, and at least 73% of non-CARE Residential customers will experience increases in their average monthly bills anywhere from about 4% up to 35%.¹¹¹ As shown in PG&E's GCAP Workpapers, the average bill change could increase anywhere from an additional \$1.65 a month to \$7.69 a month overall,¹¹² especially for the approximately 256,000 non-CARE residential customers whose monthly bills are below the minimum \$3 transportation charge.¹¹³ Accordingly, we reject PG&E's minimum transportation charge proposals, and instead adopt Cal Advocates minimum transportation charge proposals as further discussed below.

While TURN initially proposed using the electric \$10 minimum transportation bills' relationship to baseline amounts as a "yardstick" for establishing the gas minimum transportation charge to summer gas baseline amounts,¹¹⁴ TURN essentially discounted this idea in its Opening Brief, and recommended that the Commission adopts ORA's recommendation instead.¹¹⁵

We agree with Cal Advocates and TURN on this issue.

Additionally, we note Cal Advocates' argument that no customer surveys or consultations were conducted by PG&E regarding either the \$15 minimum

¹¹⁰ See Cal Advocates' Opening Brief at 23-24.

¹¹¹ See Cal Advocates' Opening Brief at 23-24; citing Exhibit PGE-1, Table 7-12.

¹¹² See also, Exhibit ORA-5A, at 93, lines 14-28 through 94, lines 1-2, citing PG&E Response to data request ORA-08, Q.05(g).

¹¹³ See PG&E's GCAP Workpapers Updated for Errata 02152018 in the PG&E RD Model at Tab "Res_MinMoTransBillRev" at cell B32.

¹¹⁴ Exhibit TURN-1 at 27.

¹¹⁵ See TURN's Opening Brief at 35-36.

transportation charge or the new \$45 Super-User charge, and that “there is no way to predict customer reaction to this new charge.”¹¹⁶ Nonetheless, the Commission obtained customers’ feedback on the proposed increases. Based on the written comments received from PG&E’s customers in this Application, and feedback obtained during the 14 Public Participation Hearings and several information sessions held in seven cities by the Commission during its review of this Application, the Commission is aware of public opposition to the proposed increase in the residential minimum transportation charge in this application, and the rates/bill increases that would result as a consequence of these proposals. The Commission further notes the general public dissatisfaction with bill increases, especially given the trends over the past couple of years. Particularly during the Public Participation Hearing in Oakland, TURN, as well as several speakers, pointed out that apart from the rate increase proposed in this Application, they are concerned about “the cumulative costs of previous increases” that have been approved by the Commission and their impacts on consumers’ budgets. (*See* Public Participation Hearings (Oakland PPH) transcript, Vol 7 (Oakland) at 507, lines 3-20). More specifically, TURN, as well as others suggested that the cumulative increases from other cases and applications by PG&E in the last seven years or so, was about 40 percent.

We are persuaded there is a need to increase the residential minimum transportation charge and accept Cal Advocates’ recommendations to raise the current \$3 a month residential minimum transportation charge to a marginal cost-based amount of \$4 a month,¹¹⁷ and to establish a new super-peak minimum

¹¹⁶ *See* Cal Advocates’ Opening Brief at 27 (citing Exhibit ORA-5A, at 97, ln. 24 through 98, lines 1-3, citing PG&E Response to data request ORA-15, Q.1(h)).

¹¹⁷ Exhibit ORA-5A at 88, lines 19-22.

transportation charge (for non-CARE residential customers with daily peak usage of at least 15 therms) at \$12 rather than the \$45 proposed by PG&E. In accepting Cal Advocates' recommendations, we are persuaded by Cal Advocates' discussions of the various factors it considered in support of its recommendations as presented in Cal Advocates' Opening Brief at 19-28.

As highlighted in Cal Advocates' Opening Brief, we note the discrepancies between PG&E's calculation of the \$16.14 total monthly average cost of serving the applicable individually metered customers, and Cal Advocates' calculation showing a different result of just \$4.18.¹¹⁸

In addition, we note that PG&E's proposed residential minimum transportation charge was based on monthly customer costs to non-CARE residential customers using PG&E's proposed embedded cost methodology, which is rejected in this decision. If a marginal cost methodology were retained and adopted for cost allocation (as Cal Advocates recommends) and Cal Advocates' DTIM-based MDCC cost estimate and the MCAC NCO cost estimate is adopted, the results of Cal Advocates' calculations (in PG&E's Rate Model) indicate marginal customer costs of \$4 a month.¹¹⁹ The exact amount shown in the Rate Model is \$4.58 a month per non-CARE residential customer.¹²⁰ Accordingly, we accept Cal Advocates conclusions as provided above, as further supported on pages 20-23 of Cal Advocates' Opening Brief.

Regarding the Super-User charge proposed by PG&E, a minimum transportation charge of \$45 for non-CARE residential customers with daily peak usage of at least 15 therms would be implemented on the top 2-3 percent of

¹¹⁸ See Cal Advocates' Opening Brief at 20-21.

¹¹⁹ See Exhibit ORA-5A at 90, lines 6-11.

¹²⁰ See Exhibit ORA-5A at 90, lines 11-12.

non-CARE residential customers. These are customers whose daily usage in the last 12 months is at least 15 therms a day,¹²¹ and thus whose usage requires more expensive commercial-sized regulators and meters.¹²² The Super-User charge would not apply to master metered residential customers, but only to individually metered residential customers.¹²³

As noted above, Cal Advocates disagrees with the \$45 amount of PG&E's proposed Super-User and argues instead that the Commission adopts its proposed \$12 Super-User charge. We are persuaded by Cal Advocates proposal to establish a \$12 Super-User minimum transportation charge.

Based on this record, we agree that a new higher Super-User charge is consistent with the state's environmental goals, and could be a deterrent to high energy consumption.¹²⁴ However, in this record, we also find that an initial Super-User charge of \$45 is very steep and sudden, and is without warning to consumers. Thus, we conclude that the proposed \$45 Super-User charge could be disruptive to many customers who may not be prepared for a high initial Super-User charge.¹²⁵ Accordingly, we accept Cal Advocates' recommendation that the amount of the new Super-User charge be set at a more reasonable marginal cost-based rate of \$12 a month.¹²⁶ As recommended by Cal Advocates, we further conclude that PG&E should be required to establish and maintain a

¹²¹ Exhibit ORA-5A at 97, lines 14-16, citing PG&E Response to data request ORA-15, Q.2(e).

¹²² Exhibit PGE-1 at 1-6.

¹²³ Exhibit ORA-5A at 97, lines 17-19, citing PG&E Response to data request ORA-15, Q.2(d).

¹²⁴ Exhibit ORA-5A at 97, lines 22-23.

¹²⁵ See Exhibit ORA-5A at 98, lines 6-7; and Exhibit ORA-5A at 98, lines 10-13, citing PG&E Response to data request ORA-15, Q.2(e).

¹²⁶ Exhibit ORA-5A at 98, lines 14-15; See ORA-5B-WP, ORA GCAP Workpapers Updated for Errata.

list of customers identified as top-tier users; periodically revisit the list of those customers;¹²⁷ and develop criteria for removing customers from the top-tier users list so as to avoid ongoing Super User charges for customers who no longer meet the criteria for the charge,¹²⁸ in implementing the Super-User charge.

For the forgoing reasons, PG&E proposals in this GCAP Application to increase the residential minimum transportation charges from the current \$3 to \$15 dollars per month for non-CARE customer basic service; and to establish a higher super-peak minimum transportation charge of \$45 for non-CARE residential customers are denied. PG&E shall implement a \$4 residential minimum transportation charge; and could establish a higher super-peak minimum transportation charge (Super User charge) of \$12 for non-CARE residential customers with daily peak usage of at least 15 therms, as discussed above and authorized herein.

Nonetheless, in its comments to the proposed decision, PG&E requested that the \$12 Super-User charge should not be authorized for implementation at this time. We accept PG&E's recommendation, and the \$12 Super-User charge is not authorized in this decision.

As noted earlier, we recognize the potential merits of establishing a residential minimum transportation charge. With gas utility capital infrastructure cost rising and throughput declining, the Commission may, at some point in the future, open a rulemaking in order to examine the revenue collection issues California gas utilities will increasingly face. In this future rulemaking, the Commission may consider the tradeoffs between establishing a larger minimum transportation charge, a minimum bill, or a fixed charge.

¹²⁷ Exhibit ORA-5A at 98, lines 16-17.

¹²⁸ Exhibit ORA-5A at 98, lines 17-19.

4.6. Issue 7 - Are the residential and non-residential gas rates proposed and the expected rate and bill impacts that result from the implementation of PG&E's cost allocation and rate design proposals, and the cost allocation methodology itself, just and reasonable, and if so, should they be adopted?

As provided above, we reject PG&E's proposal to implement the cost allocation proposal set forth in its testimony using embedded costs at this time, and without prejudice. Based on this record, we find that Cal Advocates' DTIM-based MDCC estimate, modified by PG&E's proposed Rental Method MCAC marginal cost study results in the most reasonable revenue allocation for PG&E's customers.¹²⁹ Accordingly, we are adopting Cal Advocates' marginal cost study based on the Rental Method, updated for the new tax law and cost of capital, and updated by PG&E's \$373.74 per Dth per day which was in PG&E's 2017 GRC Phase I application. We remove the smart-meter opt-out costs from revenue cycle services costs in this GCAP as provided above in Section 4.3.

We also reject PG&E's proposals in this GCAP Application to increase the residential minimum transportation charges from the current \$3 to \$15 dollars per month for non-CARE customer basic service and to establish a higher super-peak minimum transportation charge of \$45 for non-CARE residential customers with daily peak usage of at least 15 therms. Instead, we direct PG&E to implement a non-CARE residential minimum transportation charge of \$4, and find a new Super-User charge of \$12 reasonable though not authorized for implementation in this decision, as discussed in Section 4.5 above.

As described in Section 4.5, we find the Cal Advocates analysis¹³⁰ compelling. This analysis concluded that PG&E's proposed \$15 minimum bill

¹²⁹ See Cal Advocates' Opening Brief at 28; and Exhibit ORA-5A, at 98, lines 22-26.

¹³⁰ See Cal Advocates' Opening Brief at 19-28.

for residential transportation rates will impact at least 58% of total residential customers, and that at least 73% of non-CARE residential customers will experience increases in their average monthly bills anywhere from 4% up to 35%. As shown in PG&E's GCAP Workpapers, the average bill change could increase anywhere from an additional \$1.65 a month to \$7.69 a month overall.¹³¹

Additionally, Cal Advocates argues that, if all of PG&E's proposals in this GCAP Application were to be adopted, "a number of CARE customers (approximately 7%) may see an increase in their average monthly bills.¹³² The increase could range from between a 1 percent to a 14 percent change in the average monthly bill,"¹³³ resulting in an increase in the CARE average monthly bill of anywhere from 26 cents up to a \$3.17.¹³⁴

Accordingly, PG&E's embedded cost allocation and rate design proposals are not found to be just and reasonable, and are therefore not adopted as requested in the GCAP Application. Specific elements of the proposals are as discussed and adopted in various sections herein in this decision, or as adopted in to D.18-10-040 (the Decision Adopting Settlement Agreement on Residential Baseline Season Restructuring presented in this Application).

¹³¹ Exhibit ORA-5A, at 93, lines 14-28 through 94, lines 1-2, citing PG&E Response to data request ORA-08, Q.05(g).

¹³² Exhibit PGE-1, Table 7-13 shown at lines 1 through 4 in the last column marked "Cumulative % of Total G-1 CARE Customers," at 7-20.

¹³³ *Id.*

¹³⁴ *Id.*

4.7. Issue 8 - Should PG&E's proposal for the update to the Core Brokerage Fee be approved?

PG&E presented an update of the Core Brokerage Fee study, which was last performed in PG&E's 2009 BCAP.¹³⁵ Based on its testimony, PG&E proposed an update of its Core Brokerage Fee from \$0.0257 per dekatherm (Dth) to \$0.0249 per Dth. PG&E noted that no party disagreed with PG&E's study, with the exception of TURN's witness (Marcus) proposal that a new cost component to the Core Brokerage Fee be added. According to PG&E, "Mr. Marcus proposed to increase the Core Brokerage Fee by unbundling a portion of the cash working capital cost from gas transportation rates and moving it to procurement rates. He provided a calculation to "extract" a hypothetical gas commodity cash working capital rate base from PG&E's working cash exhibit in the 2017 GRC I case."¹³⁶

PG&E argues that Mr. Marcus' calculation was hypothetical in nature as there is no rate base or an Unbundled Cost Category (UCC) for PG&E's gas procurement service. As such, PG&E argues TURN's proposed brokerage fee of \$0.0287¹³⁷ should be rejected.

We agree with PG&E that working cash is generally determined in GRC I cases, where working cash development is often based on the CPUC's Standard Practice U-16-W, "Determination of Working Cash Allowance," which has been used for gas and electric utilities since 1956.¹³⁸ Accordingly, we accept PG&E's argument that this GCAP proceeding is not the right forum for working cash calculations and that questions of working cash development and

¹³⁵ See Exhibit PGE-1, chapter 4B, at 4B-1 to 4B-5 (Bergero's testimony).

¹³⁶ See PG&E Opening Brief at 27-29 (citing Exhibit TURN-1, at 22 -23, and table 6, at 23)

¹³⁷ Exhibit TURN-1, table 4B-3, at 23.

¹³⁸ D.10-212-032; Tr. 874.

functionalization belong in a GRC I case.¹³⁹ TURN may present its proposal to increase the Core Brokerage Fee by unbundling a portion of the cash working capital cost from gas transportation rates and moving it to procurement rates in PG&E's next GRC I case, if it desires.

Cal Advocates, represented in testimony that it "reviewed PG&E's Core Fixed Cost Account (CFCA) and Core Brokerage Fee Account (CBFA) for the record period 2007 through 2017;" and that "as of December 31, 2017, PG&E's CFCA balancing account was at an under-collection of \$288.38 million."¹⁴⁰ Cal Advocates indicated that "the recorded CBFA and CFCA accounting entries [Cal Advocates] sampled are correctly stated," through December 31, 2017.¹⁴¹ We accept Cal Advocates' representations.

Pursuant to the arguments put forward by PG&E, and Cal Advocates representations, summed up above, as well as the entire record in this matter, we find that PG&E's proposal to update the Core Brokerage Fee from \$0.0257 per Dth to \$0.0249 per Dth is appropriate. Accordingly, we approve the proposed update of the Core Brokerage Fee to \$0.0249 per Dth as proposed in the Application.

4.8. Issue 9 - Should PG&E's proposal to update the master meter discount and the master meter discount diversity benefit adjustment be approved?

In this Application, PG&E proposes to update the master meter discount (MMD) using "embedded cost methodology and baseline diversity benefits for master meter customers where gas is delivered to a single master meter at a residential development. That gas is then delivered through a private

¹³⁹ Exhibit PGE-3, at 4B-2, lines 1 to 6.

¹⁴⁰ Exhibit ORA-6, at 1, lines 2-6.

¹⁴¹ See Cal Advocates' Opening Brief at 29.

sub-metered distribution system to individual tenants in master-metered mobile home parks and apartment buildings.”¹⁴² PG&E also proposes an update to the baseline diversity benefit adjustment (DBA) for master-meter customers, and urges the Commission to approve its proposed MMD. In the proposal, owners of master-metered mobile home parks or multi-family residences such as apartment complexes, where PG&E does not directly meter the tenants, can take service from PG&E under gas Schedule GS (for multifamily service) or Schedule GT (for mobile home park service). If the proposal is adopted, the owners taking service from PG&E under these rate schedules will receive a discount to compensate them for costs that the utility avoids because the owners of the mobile home parks sub-meter the individual tenant spaces rather than having the utility directly serve those tenants.¹⁴³

In support of its proposals, PG&E explains that it calculates the MMD for Schedule GT and GS consistent with the methodology adopted by the Commission, most recently in August 2018.¹⁴⁴ The total MMD for Schedule GT consists of the Base Discount plus a Gas Loss Adjustment (GLA) minus the DBA (Base + GLA – DBA).¹⁴⁵ PG&E explains that these rate schedules have been closed to new customers since January 1, 1997, but have been updated in rate

¹⁴² See Application at 5.

¹⁴³ PG&E, Ex, PGE-1, at 5-1, Lines 5-7. The Commission is required to provide a discount under PUC Section 739.5.

¹⁴⁴ See. D.18-08-013, p.114, “ This methodology for calculating the master meter discount was used in the last Commission decision to consider these issues in depth – D.11-12-053 – and we adopt it in this decision as well.”.

¹⁴⁵ Detailed calculations of the discount are included in Chapter 5 of PG&E’s opening testimony. PG&E-1, Chapter 5, at 5-2 through 5-9, Tables 5-2 and 5-3.

design cases.¹⁴⁶ Thus in this GCAP, PG&E presents a revised master meter calculations on Schedule GS and GT.¹⁴⁷

In its Opening Brief, WMA opposes PG&E's proposed MMD. WMA argues that PG&E's proposed MMD of \$10.35 per space per month, or \$0.33997 per space per day, for mobile home parks using illustrative values for the DBA and GLA, is "about 30% lower than the current rate of \$0.48200 per space per day."¹⁴⁸ WMA also argues that PG&E's proposal underestimates the credit attributable to PG&E's average costs that is the basis of the master meter discount. Thus, WMA argues that there are inconsistencies in PG&E's calculations, and that corrections are necessary. WMA believes that other flaws in the development of PG&E's DBA makes PG&E's proposed DBA unusable. Accordingly, WMA recommends that the Commission directs PG&E to implement a net MMD of \$17.83/mobile home space/month, which translates to \$0.58559/mobile home space/day, as explained in detail in its Opening Brief and testimony.¹⁴⁹

In its brief, PG&E acknowledged WMA's objections and recommendations to the methodology used to calculate the discount. PG&E noted TURN's recommended revisions to the cost loader factors which reduces the discount while supporting the proposed GLA and DBA proposed by PG&E. PG&E also emphasized Cal Advocates' support for its proposed methodologies and values for the master meter discount. According to PG&E, WMA's positions on the MMD should be rejected with one exception – the application of the service

¹⁴⁶ *Id.*

¹⁴⁷ PG&E, Ex, PGE-1, at 5-1, Lines 5-7.

¹⁴⁸ See WMA's Opening Brief at 1 (citing Exhibit PG&E-2, Table 5-1, page 5-2).

¹⁴⁹ See WMA's Opening Brief at 1-16; and Exhibit WMA-1, at 6-21.

O&M loader to service equipment costs in addition to meter equipment cost, resulting in MMD reduction of \$1.11. PG&E believes the Commission should approve its proposed MMD, including PG&E's DBA.

TURN proposed three technical updates to the base master meter discount inputs. First, TURN requests that PG&E use the Real Economic Carrying charge (RECC) factors for services and meters that it developed including the new tax law and the new lower cost of capital. Second, TURN proposes to modify meter reading marginal costs to remove Smart Meter opt-out costs of 45 cents per residential customer and 13 cents per small commercial customer.¹⁵⁰ Third, TURN uses the embedded cost of distribution mains calculated in TURN's embedded cost study (\$726 million system-wide versus PG&E's \$744 million, which TURN later updated in supplemental rebuttal testimony to \$751.6 million). PG&E believes any differences in TURN and PG&E embedded cost methodologies would result in very similar customer class allocations and Schedule GS and GT base component values.

PG&E agrees with the first of the three recommended updates by TURN, while opposing the second and remaining neutral on the third as further discussed below. Otherwise, PG&E indicated that TURN's proposed updates herein should not prevent the Commission from approving the methodology proposed by PG&E in calculating the discount.

Regarding the first of TURN's proposed update, PG&E indicates that "TURN's updates to the RECC factors for services and meters using the new tax rates and cost of capital are correct" and accordingly, it (PG&E) has agreed¹⁵¹ to update the RECC for the corporate tax rate in the new tax act and the new Cost

¹⁵⁰ Exhibit TURN-1 at 24.

¹⁵¹ See PG&E's Opening Brief at 35, citing Exhibit PGE-19.

of Capital. In addition, PG&E has agreed to update GCAP gas GT and GS MMD “Base” amounts, and recalculate and update it for tax and cost of capital impacts at the time of implementation. We accept these stipulations. PG&E shall update the RECC for the corporate tax rate in the new tax act and the new Cost of Capital; and update GCAP gas GT and GS MMD “Base” amounts, and recalculate and update them for tax and cost of capital impacts at the time of implementation.

Regarding the other two TURN proposed updates, PG&E indicated that it disagrees with TURN’s conclusion that SmartMeter opt cost is not marginal;¹⁵² and thus PG&E requested that these costs continue to be included in a marginal cost calculation.¹⁵³ We conclude that this record is insufficient to evaluate the second and third of TURN’s proposed updates herein, and accordingly these proposals are rejected.

In addition, TURN noted that PG&E underestimated the MMD as a result¹⁵⁴ and that the DBA should be eliminated in the calculation of the master meter discount.¹⁵⁵ TURN argues that the Commission has repeatedly rejected WMA’s arguments for use of an Equal Percentage of Marginal Cost (EPMC) scalar¹⁵⁶ and has also rejected the use of residential average costs instead of multi-family costs.¹⁵⁷ Lastly, TURN pointed out that the sampling methodology used to calculate the DBA that WMA now claims is flawed was jointly developed

¹⁵² Exhibit PGE-3 at 5-6, lines 11-26.

¹⁵³ Hearing Transcripts (PG&E, Coyne), at 759-768.

¹⁵⁴ Exhibit WMA-1, at 3 – 4.

¹⁵⁵ Exhibit WMA-1, at 4.

¹⁵⁶ See D.11-12-053, D.12-08-046, and D.12-10-004.

¹⁵⁷ See D.11-12-053, D.18-08-013.

by WMA and PG&E in 2007; it has been repeatedly adopted by the Commission since that time.¹⁵⁸

TURN indicated its full support for PG&E's rebuttal testimony which addresses these proposals and recommends that the Commission reject all of WMA's proposals except one – to apply the service O&M loader to service equipment costs in addition to meter equipment cost, resulting in a \$1.11 reduction to the master meter discount.¹⁵⁹

Cal Advocates does not oppose PG&E's proposed MMD or PG&E's proposed Master Meter DBA. Specifically, Cal Advocates explained that it does not oppose PG&E's MMD method of using the rental method to determine the access-related costs for Schedules GS and GT and the distribution line-related avoided costs, applicable to only Schedule GT.¹⁶⁰ Cal Advocates does not challenge PG&E's results of its study regarding the proposed Baseline DBA amount.¹⁶¹

As explained by Cal Advocates Opening Brief (at 9), the access-related costs is \$3.36 per space per month, or \$0.11041 per space per day for Schedule GT. It is \$2.18 per unit per month, or \$0.07177 per unit per day, for Schedule GS¹⁶² subject to update upon implementation with then-effective rates and proposed baseline quantities.¹⁶³ Thus, Cal Advocates recommends that the Commission apply PG&E's MMD method using the rental method on a marginal costs approach in order to determine the access-related costs for Schedules GS

¹⁵⁸ Exhibit PGE-3, at 5A-7.

¹⁵⁹ Exhibit PGE-3, at 5-3 – 5-4.

¹⁶⁰ Exhibit ORA-4, at 2, lines 16-21.

¹⁶¹ Exhibit ORA-4, at 6, lines 8-9.

¹⁶² Exhibit PGE-1, at 5A-9

¹⁶³ Exhibit ORA-4, at 6, lines 11-13.

and GT and the distribution line-related avoided costs, applicable to only Schedule GT.

Based on this record, we agree with PG&E's and TURN's arguments that the Commission should reject WMA's recommendation to use the rental method instead of the NCO method for estimating marginal credit and collections costs.¹⁶⁴ As PG&E explained in its Opening Brief, NCO is appropriate to estimate marginal credit and collection costs because:

...there have been no new master metered mobile home parks constructed for approximately two decades, the RCS [Revenue Cycle Services] costs having the credit and collections component with the account setup subcomponent cost stated on a per-customer basis across all customers in a class better reflects PG&E's avoided cost of not otherwise directly metering the tenants of master metered mobile home parks. The RCS costs as used in PG&E's NCO method MCAC more accurately represents the very low costs incurred by park operators who in fact are generally not hooking up new customers.¹⁶⁵

The Commission has consistently rejected the use of an EPMC scalar,¹⁶⁶ and the use of residential average costs instead of multi-family costs. We reject WMA's proposal to use these here as well.¹⁶⁷ In addition, the Commission has rejected the use of the entire residential class as a proxy for the cost of service connections for mobile home parks.¹⁶⁸ We are not persuaded by WMA's arguments in favor of utilizing a residential class average figure for purposes of calculating the MMD.

¹⁶⁴ Marginal credit and collection costs are part of the revenue cycle services costs.

¹⁶⁵ See PG&E's Opening Brief at 32; also Exhibit PGE-3, at 5-9, lines 1-10.

¹⁶⁶ See D.11-12-053, D.12-08-046, and D.12-10-004.

¹⁶⁷ In reaching this conclusion, we find that D.16-10-004 is not persuasive. See also, Rule 12.5; and D.04-04-043 and D.18-08-013.

¹⁶⁸ Exhibit WMA-1, at 6, lines 14-15.

Nonetheless, we find that WMA correctly identified an error in applying an O&M service loader to the base master meter discount; correcting this error will reduce the base discount proposed by PG&E. PG&E inadvertently applied an O&M loader (4.11 percent) to the meter disconnection cost of \$485.07¹⁶⁹ instead of applying the service loader to multi-family service costs of \$151.63. PG&E has corrected this error, and with this correction, PG&E's prior proposed base amount of \$12.61 is revised to \$11.50 per space per month, a \$1.11 reduction in both the base and net amount for the monthly Schedule GT MMD. Accordingly, the Schedule GT net discount reduces to \$9.22 based on the illustrative GLA and DBA values, excluding the updates for tax and cost of capital factors. The multi-family Schedule GS base and net MMD are not affected.¹⁷⁰

We find that PG&E met its burden on its proposals to update the MMD and the MMD-DBA presented in this Application. Accordingly, we approve these proposals on the conditions that PG&E shall: 1) apply the service O&M loader to service equipment costs in addition to meter equipment costs resulting in a \$1.11 reduction to the master meter discount; 2) update the RECC for the corporate tax rate in the new tax act and the new Cost of Capital; and 3) update GCAP gas GT and GS MMD "Base" amounts, and recalculate and update it for tax and cost of capital impacts at the time of implementation.¹⁷¹

¹⁶⁹ Exhibit WMA-1, p.12, lines 3-5, Table 1.

¹⁷⁰ Exhibit WMA-1, p.12, lines 3-5, Table 1 and Exhibit PGE-3, at 5-4, lines 4-22.

¹⁷¹ All other arguments made by WMA, TURN, PG&E and Cal Advocates on these issues have been evaluated and rejected, unless otherwise addressed, resolved and/or adopted in this decision.

4.9. Issue 10 - Should PG&E's proposed natural gas vehicle compression rate be approved?

In its Application, PG&E proposes updates to the NGV compression cost analysis and to the NGV compression rate. In support of its proposals, PG&E explains that it offers an NGV compression rate which is based on the cost to provide the compression service, as a separately stated rate component of the G-NGV2-Natural Gas Service rate.¹⁷² Furthermore, PG&E explains that the currently effective NGV compression rate was adopted in PG&E's 2009 BCAP with a study based on an extensive data derived from historical information used to develop five station specific Results of Operations (RO) models.¹⁷³ In this GCAP, PG&E presented an updated analysis using the same methodology from the 2009 BCAP, with updated O&M expenses, overhead expenses, and station throughput data. PG&E submits that this GCAP's analysis uses the primary parameters that affect the rate - expenses and throughput - and that the expense data is based on adopted amounts from PG&E'S 2017 GRC I case.

PG&E justifies the increased maintenance costs presented in its study as reflective of "PG&E's strengthening of station maintenance practices through implementation of industry best practices that enhance safety and reliability, and which go beyond code requirements."¹⁷⁴ According to PG&E, an extensive capital cost analysis was not repeated, but the expense updates represent 75 percent of the compression rate. PG&E's resulting proposed updated compression rate in this case is \$0.96 per therm.¹⁷⁵ PG&E requests that the

¹⁷² See Exhibit PGE-1, at 4C-1, lines 1 -12.

¹⁷³ See Exhibit PGE-1, at 4C-1, lines 10-18.

¹⁷⁴ See PG&E Opening Brief at 29-30, citing Exhibit PGE-1, at 4C-1, line 21 to 4C-2, line 14.

¹⁷⁵ See Exhibit PGE-1, at 4C-2 through 4C-7 for full details about the NGV study.

Commission accept its NGV Compression Cost study and authorize its proposed NGV compression rate of \$0.96 per therm.

First, we note that no party has disputed PG&E's NGV Compression Cost study and the proposed NGV compression rate of \$0.96 per therm. We find that the updated O&M expenses, overhead expenses, and station throughput data updates justify the NGV compression rate of \$0.96 per therm requested by PG&E.

Based on this record, and the unopposed arguments made by PG&E in support of this proposal, we conclude that PG&E has met its burden of proof on this issue. We accept PG&E's NGV Compression Cost study and authorize the proposed NGV compression rate of \$0.96 per therm.

4.10. Issues 11 and 12 - Energy Efficiency (EE) and Energy Savings Assistance (ESA) Programs

Issue 11 - Should PG&E's proposed modifications to the allocation of EE program costs to customer classes be approved?

Issue 12 -Should the allocation of ESA program costs to the residential customer class be performed as a separate step from the allocation of EE costs to all customer classes?

In this GCAP Application, as provided above, PG&E requests Commission approval for the proposals to allocate EE costs based on an updated study of benefits received by each class, and to include the benefits of the ESA program accruing entirely to the residential class.¹⁷⁶ These issues are identified Issues 11 and 12 in the Scoping Memo, and are discussed herein together under Sections 4.10, for efficiency due to their relatedness.

¹⁷⁶ See PG&E's Opening Brief at 59-60.

Regarding Issue 11, PG&E argues that Commission precedent supports direct benefit allocation of EE program costs, and the use of the Commission's official cost-effectiveness calculator. In support of its proposals, PG&E, through the testimony of its witness (Biery), sponsored a study of the benefits to customer classes. PG&E contends that its study is consistent with D.95-12-053, maintaining that "marketing and [Demand Side Management] DSM costs should be directly assigned to the gas customer classes for whom the programs are designed," using a direct benefit allocation.¹⁷⁷ The study, according to PG&E, utilized the Commission's EE cost-effectiveness calculator, which is its official tool to calculate cost-effectiveness (including benefits).¹⁷⁸

PG&E pointed out that the only party that challenged PG&E's EE cost allocation proposal is SBUA. In its Opening Brief, SBUA argues that PG&E's proposal is an unreasonable and the Commission should reject PG&E's proposed EE allocation because it does not accurately reflect the benefits accrued among customer classes. More specifically, SBUA contends that: 1) PG&E's proposed cost allocation for EE non-resource programs should be revised to fairly distribute costs across customer classes; 2) PG&E's other EE costs should also be revised to fairly distribute costs across customer classes; 3) the ESA program should not be allocated to customer classes that it does not serve; and 4) that PG&E's EE resource program costs should be directly allocated.¹⁷⁹

SBUA argues that PG&E bears the burden of proving that it is entitled to the relief it seeks and must affirmatively establish the reasonableness of each and

¹⁷⁷ Exhibit PGE-1, at 4A-1, lines 14 to 21.

¹⁷⁸ Exhibit PGE-3, at 4A-13, line 2 to 4A-14, line 8; and Exhibit PGE-1, at 4A-3, lines 5 to 8.

¹⁷⁹ See SBUA's Opening Brief at 20, 21, 22, and 15, respectively.

every proposal within its application.¹⁸⁰ SBUA contends that PG&E has not met this burden because PG&E's application falls short of fairly allocating the costs of EE programs to customers, and "because the EE Program costs are disproportionately and unfairly allocated to small commercial customers."¹⁸¹

SBUA requested that the Commission direct PG&E to begin the practice of collecting data on customer class participation in EE programs, which is not being collected currently, in order to assist in the future evaluation of these programs.

PG&E attempted to address SBUA's objections, contending that while SBUA's witness (Chernick) proposed several different methods for allocation of these costs (such as using each classes' throughput, or their EE therm savings),¹⁸² Mr. Chernick did not challenge the policy in D.95-12-0531. Rather, Mr. Chernick took the position that PG&E had misinterpreted and misapplied that policy.¹⁸³ PG&E contends that Mr. Chernick's proposal to use other measures for EE cost allocation, such as throughput by class, or therm savings by class, are based on Mr. Chernick's "interpretation of what is meant by "benefits," which is different than how the Commission's official calculator defines benefits.¹⁸⁴ Thus, PG&E concludes that SBUA's disagreement with PG&E's study and cost allocation results is premised on SBUA's rejection of the Commission's official calculator,

¹⁸⁰ See, e.g., D.09-03-025at 8 (discussing utilities' burden of proof in General Rate Cases).

¹⁸¹ SBUA's Opening Brief at 13; also at 13-22, generally.

¹⁸² PG&E believes that the therm savings in SBUA-1, Table 3, at 6 is based on first year savings, rather than savings for the life of the measure, and that PG&E witness (Biery) had noted that that savings for the life of the measure should be used for allocations based on therm savings or bill savings. (Citing Exhibit PGE-3, at 4A-10, lines 18-30).

¹⁸³ Hearing Transcripts at 1129, line 23 to 1130, line 15 (Chernick); and 1130, line 16 to 1131, line 27.

¹⁸⁴ PG&E Opening Brief at 23.

and the resulting benefits calculations. PG&E argues that its use of the Commission's official calculator is appropriate¹⁸⁵ and that Mr. Chernick's testimony does not provide sufficient reason to disregard the results from the official Commission calculator.

PG&E further argues that an EE cost allocation that is based on throughput would not comply with D. 95-12-053,¹⁸⁶ as it "would make no attempt to consider how PG&E's overall EE portfolio serves customers in different proportion than their energy use, much less allocate the cost of individual programs based on the design of these programs"¹⁸⁷ and that allocating based on therms savings alone is a much less robust method than allocating based on the benefits from the calculator.¹⁸⁸

Finally, PG&E argues that SBUA did not provide a sufficient challenge to PG&E's approach for allocating non-resource programs. PG&E explains that Non-Resource programs do not generate quantifiable benefits data. As such, for each Non-Resource program PG&E utilized Resource program benefits from programs with the same sector to create a proxy of the Non-Resource program's benefits. Doing so enabled PG&E to create "consistent and defensible objective judgments regarding program design, which is preferred to using subjective judgments that can vary depending upon the individual motivations attributed to each program."¹⁸⁹

¹⁸⁵ Exhibit PGE-3, at 4A-13, lines 2-12.

¹⁸⁶ Exhibit PGE-3, at 4A-8, lines 6-25.

¹⁸⁷ Exhibit PGE-3, at 4A-8, lines 14-17.

¹⁸⁸ See Exhibit PGE-3, at 4A-10, lines 5-11; and lines 18-30.

¹⁸⁹ Exhibit PGE-3, at 4A-17, lines 26-31.

Other than SBUA, TURN (who does not challenge PG&E's proposed allocation of EE program costs) challenges the allocation of EE shareholder incentives in the modeling for PG&E's prepared testimony (Exhibit PGE-1, chapter 6). According to PG&E, upon review of TURN's testimony, PG&E has agreed to use the method proposed by TURN to allocate EE shareholder incentives using the direct benefits method developed for program costs.

Regarding the ESA program (Issue 12), Cal Advocates argues that while PG&E's proposal to update the cost allocation formulas used for EE programs and the ESA are based on a "direct-benefits" methodology,¹⁹⁰ direct-benefits is not the appropriate method for allocating ESA costs because the ESA is a low-income program. Cal Advocates argues that PG&E erred in categorizing ESA as an EE program; Cal Advocates believes that ESA's costs should be apportioned to gas ratepayers using an ECPT¹⁹¹ methodology identical to that used to apportion CARE costs.¹⁹² According to Cal Advocates, the costs of low-income programs should not be allocated to a single rate class.¹⁹³ Cal Advocates argues that PG&E should recalculate the cost allocation for ESA using the ECPT

¹⁹⁰ Exhibit PGE-1, Chapter 4A.

¹⁹¹ That is, "equal cents per therm."

¹⁹² Among others, Cal Advocates argues that PG&E does not address CARE cost-allocation formulas in this GCAP application, even though § 327(a)(7) requires that CARE costs be allocated "on an equal cents per kilowatt hour or equal cents per therm basis to all classes of customers that were subject to the surcharge that funded the program on July 1, 2008." According to Cal Advocates, the same cost-recovery arrangement should be used to recover ESA gas costs. Using the calculations for an equal cents/therm calculation similar to CARE, electric generation and wholesale customers excluded, PG&E provided the following allocations in work papers. (See Exhibit ORA-3, at 4, lines 3-5, citing PG&E Updated workpapers for errata (Feb 12, 2018), PGE_RDMODEL_2018GCAP_02152018.xlsm: Transportation_Alloc_Factors, lines 34-35).

¹⁹³ Exhibit ORA-3, at 1, lines 9-12.

methodology that the Commission has ordered all gas utilities to use when allocating CARE gas costs.¹⁹⁴

TURN also objects to PG&E's proposal to allocate ESA costs only to the Residential class. More specifically, TURN indicated that it fully agrees with Cal Advocates that the costs of ESA should be allocated more broadly than only to residential customers. TURN indicated that it supports Cal Advocates' proposal to allocate the costs broadly, using the CARE allocation factor (ECPT excluding CARE customers, wholesale customers, and electric generation). According to TURN, the gas portion of the ESA program is the only low-income program that PG&E proposes to allocate entirely to residential customers,¹⁹⁵ unlike PG&E's low-income CARE program allocated across the entire system for both electricity and gas using an equal cents per unit (kWh or therm) – excluding CARE customers themselves, electric streetlighting customers, and gas wholesale and electric generation customers. Finally, TURN noted that in PG&E's last electric Phase 2 proceeding, neither PG&E nor any other party to PG&E's most recent electric rate design case ever proposed directly assigning ESA costs of low-income EE to electric residential customers.¹⁹⁶

Regarding TURN's position that the EE shareholder incentives should not be allocated by the number of customers, PG&E indicated (in its rebuttal testimony) that it agrees with TURN and has revised its proposed allocation accordingly.¹⁹⁷ PG&E proposes to allocate these incentives by the same

¹⁹⁴ Exhibit ORA-3, at 1, lines 19-21.

¹⁹⁵ According to TURN, PG&E proposes to assign \$64 million of ESA costs and \$91 million of total EE costs to residential customers resulting in 64 percent allocation to residential customers of the total EE program costs.

¹⁹⁶ Citing A. 16-06-030, Exhibit PG&E-1, at 1-8 and 1-9. (Attachment 3)

¹⁹⁷ Exhibit PGE-3, at 4A-25.

allocation as programs on which incentives are based (excluding the ESA program, for which no incentives are provided). TURN agrees with PG&E and supports the following allocation: Residential Class (33.84% EE Allocation); Small Commercial (32.86% EE Allocation); Large Commercial (1.94% EE Allocation); Industrial Distribution (10.82% EE Allocation); and Industrial Transmission (20.54% EE Allocation). Finally, TURN argues that the Commission should reject SBUA's alternative proposals for cost allocation disused above.

Indicated Shippers supports PG&E's proposed EE and ESA allocation, arguing that PG&E's proposed allocation complies with D.95-12-053, and that ESA is a resource program, not a low income program. According to Indicated Shippers, PG&E's proposal more accurately reflects the nature of the ESA program as an EE program, rather than a low-income program, such that any allocation method resulting in allocating ESA program costs to a class other than the gas customer residential class that directly benefits from the existence of the program would not comply with D.95-12-053. Indicated Shippers noted that the costs of these programs have been allocated to the residential customer class since 1996 based on the "direct benefit" allocation method that assigns program costs to the gas customer classes for whom they were designed.¹⁹⁸

Indicated Shippers agrees with PG&E's conclusion and its proposal, believing that PG&E's allocation of ESA is in line with previous Commission decisions regarding DSM costs (citing D.95-12-053). Accordingly, Indicated Shippers objects to Cal Advocates and TURN's proposal to allocate these costs

¹⁹⁸ Exhibit PGE-1, at 4A-1. See also, PG&E Advice 1957-G, Customer Energy Efficiency/Demand-side Management Program Cost Allocation Adjustment BCAP Decision 95-12-053.

more broadly consistent with the allocation methodology for CARE program costs.

PG&E indicated that it disagrees with TURN and Cal Advocates' proposal "to overturn the 23-year-old Commission precedent by allocating ESA costs across all customer classes, on the basis that ESA is a low income program."¹⁹⁹ According to PG&E, TURN recommends allocating the ESA costs on an ECPT basis to all classes;²⁰⁰ Indicated Shippers supports the current direct benefit allocation of ESA costs;²⁰¹ while SBUA appears neutral on the issue, stating that the allocation of ESA costs "is a judgment call on the part of the Commission."²⁰²

PG&E contends that ESA is unique in that it is an EE program with a distinct target group, that is, qualified low-income customers. PG&E argues that ESA programs costs have been directly assigned to the gas customer class for whom the program is designed, *i.e.*, 100 percent to the residential class, since 1996 without objection until this proceeding.²⁰³ Thus, PG&E argues that precedent favors a decision that continues to allocate all ESA program costs 100 percent to the residential class.

According to PG&E, ESA has consistently been viewed as an EE program,²⁰⁴ in that § 382 (e) established long-term reductions in energy consumption as a primary objective of Low-Income EE-ESA Programs. According to PG&E, the Commission responded by ordering investor-owned

¹⁹⁹ See PG&E's Opening Brief at 25 (citing Exhibit ORA-03, at 3, lines 5-22; TURN-1, at 20).

²⁰⁰ Exhibit TURN-1, at 20.

²⁰¹ Indicated Shippers, Exhibit IS - 1, at 4 line 12 through 5, line 2.

²⁰² Exhibit SBUA-2, at 8, lines 6-13.

²⁰³ Exhibit PGE-1, at 4A-3, line 10 through 4A-11, line 4, Table 4A-1.

²⁰⁴ Exhibit PGE-3, at 4A-4, lines 20-25.

utilities to treat ESA as a resource program that focuses on energy savings,²⁰⁵ concluding that ESA should serve as resource programs designed to save energy.²⁰⁶

PG&E argues that its proposed allocation in this GCAP Application is consistent with Commission direction in D.95-12-053²⁰⁷ and Commission guidance for allocation of EE programs. According to PG&E, the Commission addressed this (ESA) issue in 2009, when the Commission denied a PG&E, SDG&E, and SoCal Gas request to unify regulatory cost recovery methods of all public purpose programs costs.²⁰⁸ The request would have allocated PG&E's Low Income Energy Efficiency (since rebranded to ESA) costs using an equal percent of base revenue (EPBR) cost allocation method.²⁰⁹ Thus, PG&E contends that the Commission was aware of PG&E's direct benefit allocation method for ESA since 2009,²¹⁰ when the Commission ruled that allocating costs across classes without consideration of the classes that benefit from a program was inappropriate.

Further, PG&E argues that the Commission indicated in D.09-03-024 that adoption of a EPBR method "defies a basic costing principal of assigning cost to

²⁰⁵ D.08-11-031, at 7.

²⁰⁶ D.08-11-03.

²⁰⁷ D.95-12-053, Finding of Fact (FOF) 26.

²⁰⁸ D.09-03-024.

²⁰⁹ D.09-03-024, at 4, fn. 5 (The decision states, "Equal percent of base revenue assigns costs to individual customer classes based on the same percentage of base transportation revenue allocated to each customer class. For PG&E, ECPB is the sum of customer access costs (noncore transmission service connections), distribution costs (including core and noncore service connection), local transmission costs, and backbone transmission costs).

²¹⁰ D.09-03-024, Appendix A, at 2-3.

those who will benefit, whether direct or indirect,”²¹¹ and that “cost allocations of the PPP [public purpose] programs should be fair and equitable. As such, costs should be allocated to customer classes in a manner that appropriately assigns costs relative to the expected share of program benefits. The EPBR method precludes any consideration of an individual program’s purpose and intended benefit.”²¹² Thus, PG&E concludes that even for analysis of public purpose programs, the Commission looked to allocate costs in line with benefits afforded to specific classes.

Finally, PG&E contends that Cal Advocates’ reliance on D.16-11-022 is misplaced, in that D.16-11-022 specifically aligned “ESA more closely with the program design for the overall EE program which focuses on portfolio efficiency and incentives for EE achievement;”²¹³ and that this finding followed Commission precedent holding that the “key policy objective for [ESA] programs, like that of our non-LIEE EE programs, is to provide cost-effective energy savings that serve as an energy resource.”²¹⁴ Thus, PG&E concludes that these policy and program objectives supported the Commission’s decision to establish overall portfolio energy savings targets the IOUs are to achieve for the ESA program.²¹⁵

²¹¹ D.09-03-024, at 21 (Conclusion of Law 3).

²¹² D.09-03-024, at 18 (emphasis added).

²¹³ D.17-12-009, Attachment 1, at 6. D.17-12-009 resolved petitions to modify D.16-11-022, and attached a redlined version of D.16-11-022. PG&E refers to the decision that resolves the petitions.

²¹⁴ *Id.*, Attachment 1, at 15.

²¹⁵ *Id.*, Attachment 1, at 6, 11-17, 41-54, 455 (Ordering Paragraphs 5-6). For example, the Decision found that “In the California Long-Term Energy Efficiency Strategic Plan, the Commission made it clear that the ESA Program was also meant to be a resource program and achieve energy savings.” *Id.* at 11.

We have evaluated the entire record with regards to Issues 11 and 12 in the Scoping Memo and the arguments made by PG&E, TURN, Cal Advocates, SBUA and Indicated Shippers, in support of, and/or opposition to, these proposals. Unless otherwise noted herein in this decision, all arguments not specifically accepted or relied upon have been evaluated and rejected.

We find that PG&E met its burden on Issue 11, whether PG&E's proposed modifications to the allocation of EE program costs to customer classes be approved, and PG&E is authorized to continue the allocation of the EE costs based on its updated study of benefits received by each class as offered in this record, and consistent with D. 95-12-053. In addition, and based on this record, PG&E shall allocate EE shareholder incentives using the direct benefits method developed for EE program costs, as proposed by TURN (and supported by this record) as follows: Residential Class (33.84%); Small Commercial (32.86%); Large Commercial (1.94%); Industrial Distribution (10.82%); and Industrial Transmission (20.54%) in developing the weighted allocation to customer classes.

Lastly, we conclude that this record is insufficient to support authorizing the requested changes to the EE cost allocation requested by SBUA. Accordingly, we reject, without prejudice, SBUA's challenge to PG&E's EE cost allocation proposal in this proceeding.

Regarding Issue 12 in the Scoping Memo, we reject PG&E's proposal to update the cost allocation formulas used for the ESA program by including the benefits of the ESA program accruing entirely to the residential class based on a direct-benefits methodology. Nonetheless, we approve PG&E's proposal that the allocation of ESA program costs to the residential customer class be performed as a separate step from the allocation of EE costs to all customer classes. Finally, we

reject TURN and Cal Advocates' recommendation to allocate the ESA program costs on an ECPT basis similar to all classes, as further discussed below.

First, we agree with SBUA that the allocation of ESA costs is a judgment call on the part of the Commission, and we find that this record is insufficient to authorize the modifications to the ESA program costs allocation requested by PG&E, or the proposed ESA costs allocation based on an ECPT methodology as put forth by TURN and Cal Advocates.

We find that while several of the arguments made by different parties on the ESA program costs allocation are not without merit, many are also equally persuasive. We conclude that this record does not provide substantial evidence to support any particular proposal, or a deviation from what the Commission previously authorized in PG&E's operative decision on this issue. Accordingly, the requests to modify ESA program cost allocation in this GCAP proceeding are denied, and this decision confirms Commission prior direction to PG&E on this issue without modification, as set forth in D.95-12-053.²¹⁶

4.11. Issue 13 - Should the Commission adopt PG&E's proposed schedule for submission of future GCAP applications?

In this Application, PG&E proposes a three-year to five-year- cycle for filing future GCAP applications, and to establish the GT&S cases as the venues for litigating and deciding gas throughput forecasts that will be implemented for future GCAP rate changes as well as GT&S rate changes. Specifically, PG&E requests that the Commission authorize it to file its future GCAP applications no sooner than three years from the application date of the previous GCAP and no

²¹⁶ D. 95-12-053, Finding of Fact 26.

later than five years from that same date.²¹⁷ In its Opening Brief (at 2), Cal Advocates indicated that it agrees with PG&E's proposal regarding the submission of future GCAP applications, but requested that PG&E should be required to provide notice to the Commission whether it anticipates a delay or is on track to file its next GCAP at least six months before the planned GCAP filing cycle proposed by PG&E herein, if adopted.²¹⁸ PG&E agrees that Cal Advocates request is reasonable. No other intervenor addressed this issue, or indicated an opposition.

Based on this record, we find PG&E's proposal for a three-year to five-year cycle for filing future GCAP applications to be reasonable. We find that the proposal will help to establish a more definite schedule for GCAP Application, and accordingly we approve this proposal, in addition to the notice requirement recommended by Cal Advocates. As proposed by Cal Advocates, PG&E would be required to provide notice to the Commission at least six (6) months before any planned GCAP filing in order to advise the Commission whether the filing would be timely or delayed.

4.12. Summary of Outcomes

This decision:

- (1) authorizes PG&E to continue the use of the marginal cost methodology initially adopted in D.92-12-058 to allocate revenue requirements to customer classes in this GCAP; and further directs PG&E to allocate its revenue requirement based on the DTIM-based MDCC estimate, and Rental Method MCAC marginal costs, as updated for the new tax law and other costs adjustments set forth in Cal Advocates'

²¹⁷ See Exhibit PGE-1, at 1-6, lines 29-31.

²¹⁸ See Exhibit ORA-5, at 100, lines 6-12.

testimony; and further updated by PG&E's \$373.74 per Dth per day which was in PG&E's 2017 GRC Phase I application;

(2) uses the final 2019 GT&S throughput forecast once adopted in A.17-11-009 to implement the GCAP rates adopted in this proceeding. In the interim PG&E shall utilize Cal Advocates' throughput forecast submitted in A.17-11-009;

(3) authorizes PG&E to update its gas distribution throughput forecasts approved in future GT&S cases, on an ongoing basis, via a Tier 2 advice letter filing;

(4) authorizes PG&E to reduce the residential Tier 1 and Tier 2 bundled rate differential to 1.2 over four years beginning with implementation of this decision;

(5) authorizes PG&E to: a) implement a \$1 increase in the residential minimum transportation charges from the current \$3 to \$4 per month for non-CARE customer basic service;

(6) authorizes PG&E to update the Core Brokerage Fee to \$0.0249 per dekatherm;

(7) authorizes PG&E to update the master meter discount and the master meter discount diversity benefit adjustment (MMD-DBA) in order to revise master meter calculations on Schedule GS and GT (*i.e.*, Gas Storage and Gas Transmission schedules) with updated information, and requires PG&E to: (a) apply the service operations & maintenance loader to service equipment costs in addition to meter equipment cost resulting in a \$1.11 reduction to the master meter discount; and (b) update the RECC for the corporate tax rate in the new tax act and the new Cost of Capital; and (c) update GCAP gas GT and GS MMD "Base" amounts, and recalculate and update them for tax and cost of capital impacts at the time of implementation;

(8) adopts an updated NGV compression rate of \$0.96 per therm, and authorizes PG&E to update the NGV compression cost analysis and the NGV compression rate based on PG&E's updated NGV Compression Cost study;

(9) authorizes modifications to the allocation of EE program costs to customer classes as follows: Residential

Class (33.84%); Small Commercial (32.86%); Large Commercial (1.94%); Industrial Distribution (10.82%); and Industrial Transmission (20.54%);

(10) authorizes PG&E to file future GCAP applications on a three to five-year cycle while requiring PG&E to provide advance notice to the Commission of such filing at least six months before any planned GCAP filing;

(11) directs PG&E to begin collecting data on customer class participation in EE programs; and

5. Comments on Proposed Decision

The proposed decision (PD) of the ALJ in this matter was mailed on August 12, 2019 to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Opening Comments were filed on September 3, 2019 by PG&E and Indicated Shippers, and reply comments were filed by PG&E, Cal Advocates and TURN addressing the issues raised in opening comments. As a result of the comments received, minor corrections and non-substantive edits were made to the PD. Additionally, substantive revisions:

- 1) removing the higher super user minimum transportation charge of \$12 for non-CARE residential customers with daily peak usage of at least 15 therms initially adopted in the PD;
- 2) substituting the NCO method used by Cal Advocates in its marginal cost study with PG&E's proposed Rental Method; and
- 3) modifying the results of Cal Advocates' DTIM-based marginal cost study by replacing Cal Advocates' MDCC estimate value of \$839.87 per Dth per day with PG&E's proposed value of \$373.74 per Dth per day, per PG&E's 2017 GRC Phase I application, in order to ensure reasonable revenue allocation and the most reasonable cost-based rates for PG&E customers, were made to the PD. The removal of the higher super user minimum transportation charge was based on

PG&E's request in its opening comments. No other changes were made to the PD.

6. Assignment of Proceeding

Clifford Rechtschaffen is the assigned commissioner, and Adeniyi A. Ayode is the assigned ALJ to the proceeding.

Findings of Fact

1. Using the throughput forecast adopted in A.17-11-009 to implement the GCAP rates adopted in this proceeding will ensure consistency in PG&E's GCAP and GT&S active rate cases concerning its gas business.

2. This record is insufficient to support PG&E's proposal to implement a cost allocation proposal using embedded costs.

3. PG&E's embedded cost proposal will have significant rate impacts on residential customers.

4. Cal Advocates' marginal cost study modified by using PG&E's proposed Rental Method , updated for the new tax law and cost of capital and removing smart-meter opt-out costs from revenue cycle services costs in this GCAP, and further updated by PG&E's proposed DTIM value of \$373.74 per Dth per day which was used in PG&E's 2017 GRC Phase I application, as provided in Section 4.3 above, provides the most reasonable revenue allocation for PG&E's customers.

5. Issue 4 in the Scoping Memo, PG&E's proposals to change the residential winter baseline months, was resolved in D.18-10-040 (Decision Adopting Settlement Agreement on Residential Baseline Season Restructuring).

6. PG&E's unopposed proposal to reduce the residential Tier 1 and Tier 2 bundled rate differential to 1.2 over four years addresses and reduces the current large tier differential which has contributed to residential bill volatility,

especially during colder-than-normal peak winter months.

7. PG&E's proposals to increase the residential minimum transportation charges to \$15 dollars for non-CARE customer basic service and to establish a higher super-peak minimum transportation charge of \$45 for non-CARE residential customers with daily peak usage of at least 15 therms, is unsupported by this record and will have significant bill impacts on customers.

8. Increasing the residential minimum transportation charge by \$1 (from the current \$3 to \$4) is consistent with Cal Advocates' calculation of the monthly average cost to serve non-CARE residential metered customers, based on marginal cost methodology rather than PG&E's embedded cost methodology.

9. Establishing a new super-peak minimum transportation charge (for non-CARE residential customers with daily peak usage of at least 15 therms) is supportive of the state's environmental goals; could be a deterrent to high energy consumption; and thus should be considered for implementation in the future.

10. PG&E's proposal to update the core brokerage fee based on an update of the Core Brokerage Fee study, with recent information for the elements of the study, will ensure that updated information is used for the core brokerage fee. Accordingly, we find that PG&E's proposal for the update to the core brokerage fee is appropriate and supported, and we approve and adopt the same fee as requested in the application.

11. PG&E's initial calculations of the master meter discount (MMD) failed to apply the service O&M loader to service equipment costs in addition to meter equipment cost, resulting in a \$1.11 reduction to the MMD.

12. PG&E established that its proposal to update the NGV compression cost analysis (including updated O&M expenses, overhead expenses, and station throughput data), and update the NGV compression rate (last updated in 2009) is

reasonable based on increased maintenance costs to strengthen station maintenance practices to meet and exceed code requirements.

13. The updated O&M expenses, overhead expenses, and station throughput data supports the proposed NGV compression rate of \$0.96 per therm, as requested by PG&E and we find the proposed NGV compression rate of \$0.96 per therm reasonable.

14. PG&E's proposed modifications to the allocation of EE program costs to customer classes (Issue 11 in the Scoping Memo), are consistent with D.95-12-053 and supported by this record.

15. PG&E's proposal to allocate ESA program costs to the residential customer class as a separate step from the allocation of EE costs to all customer classes, is supported by this record. Neither TURN nor Cal Advocates' was persuasive in their recommendation to allocate the ESA program costs on an ECPT basis.

16. PG&E's proposal for a three to five-year cycle for filing future GCAP applications is reasonable and supported as the proposal will help to establish a more definite schedule for GCAP applications and prevent stale data from being used in future GCAP proceedings. We also find it reasonable to require PG&E to provide notice to the Commission at least six months before a planned GCAP filing in order to advise the Commission whether the GCAP filing will be timely or delayed.

17. Based on this record, it is reasonable for the Commission, at some point in the future, to open a rulemaking to examine the revenue collection issues California gas utilities will increasingly face as a result of gas utility capital infrastructure costs rising while throughput is declining; and various proposals made in this proceeding by PG&E to address these issues, including: the

tradeoffs between establishing a larger minimum transportation charge, a minimum bill, or a fixed charge; rate structures including volumetric transportation rate(s) in conjunction with fixed monthly transportation charges and their impacts on affordability; and the embedded cost allocation proposal made in this proceeding by PG&E as a way of further addressing these issues.

Conclusions of Law

1. The final 2019 GT&S decision adopted in A.17-11-009 (adopting the 2019 GT&S throughput forecast), should be used to implement the GCAP rates presented in this Application in the future.

2. PG&E should be authorized to update its gas distribution throughput forecasts approved in future GT&S cases, on an ongoing basis, via a Tier 2 advice letter filing, in order to prevent the throughput used in GCAP ratemaking from becoming stale.

3. PG&E's proposal to implement the cost allocation proposal set forth in its testimony, using embedded costs should be denied.

4. PG&E should continue the use of the marginal cost methodology initially adopted in D.92-12-058 to allocate revenue requirements to customer classes in this GCAP, based on Cal Advocates' DTIM-based MDCC estimate and NCO MCAC marginal costs, and updated by Cal Advocates' marginal cost study modified by utilizing the Rental Method; updated for the new tax law and cost of capital and removing smart-meter opt-out costs from revenue cycle services costs; and further updated by PG&E's proposed DTIM value of \$373.74 per Dth per day which was used in PG&E's 2017 GRC Phase I application.

5. PG&E's proposal to reduce the residential Tier 1 and Tier 2 bundled rate differential to 1.2 over four years should be granted, and PG&E should be authorized to return to the bundled rate ratio of 1.2 gradually over a four-year

period, beginning with implementation of this decision, as proposed in this Application

6. PG&E proposals in this GCAP Application to increase the residential minimum transportation charges from the current \$3 to \$15 dollars (or to \$10 dollars as initially proposed by TURN) per month for non-CARE customer basic service; and to establish a higher super user minimum transportation charge of \$45 for non-CARE residential customers with daily peak usage of at least 15 therms, should be denied.

7. PG&E should be authorized to implement a \$1 increase in the residential minimum transportation charges from the current \$3 to \$4 dollars per month for non-CARE customer basic service.

8. The Commission should consider opening a rulemaking to examine rate structures that can address the increase in capital infrastructure costs combined with the decrease in gas throughput. These rate structures may include a volumetric transportation rate in conjunction with a fixed monthly transportation charge and should include consideration of impacts on affordability and the embedded cost allocation proposal made in this proceeding by PG&E as a way of addressing these issues.

9. PG&E's residential and non-residential gas rates proposed under PG&E's embedded cost allocation and rate design proposals are not just and reasonable and should be denied.

10. PG&E should be required to implement residential and non-residential gas rates based on the various proposals authorized or directed in this decision and as authorized or directed in D.18-10-040 (Decision Adopting Settlement Agreement on Residential Baseline Season Restructuring).

11. PG&E's proposal to update the Core Brokerage Fee based on an update

of the Core Brokerage Fee study with recent information for the elements of the study should be approved, as proposed in the Application.

12. PG&E's proposal to update the MMD and the master meter discount diversity benefit adjustment (MMD-DBA) in order to revise master meter calculations on Schedule GS and GT with updated information is supported by this record and should be approved, but PG&E should be required to apply the service O&M loader to service equipment costs in addition to meter equipment cost resulting in a \$1.11 reduction to the master meter discount; update the RECC for the corporate tax rate in the new tax act and the new Cost of Capital; and update GCAP gas GT and GS MMD "Base" amounts, and recalculate and update it for tax and cost of capital impacts at the time of implementation, in implementing this proposal.

13. PG&E should be authorized to update the NGV compression cost analysis (including updated O&M expenses, overhead expenses, and station throughput data), and update the NGV compression rate based on PG&E's updated NGV Compression Cost study. The proposed updated NGV compression rate of \$0.96 per therm should be authorized.

14. PG&E should be authorized to continue the allocation of its EE costs consistent with D. 95-12-053 and based on its updated study of benefits received by each class as offered in this record. In implementing the proposed modifications authorized herein, PG&E should be required to allocate EE shareholder incentives using the direct benefits method developed for EE program costs based on this record, as follows: Residential Class (33.84%); Small Commercial (32.86%); Large Commercial (1.94%); Industrial Distribution (10.82%); and Industrial Transmission (20.54%).

15. PG&E's proposal that the allocation of ESA program costs to the residential customer class be performed as a separate step from the allocation of EE costs to all customer classes should be approved. Accordingly, TURN and Cal Advocates' recommendation to allocate the ESA program costs on an ECPT basis and across all customer classes and SBUA's proposed allocation should be rejected as insufficiently supported by this record.

16. PG&E's proposal for a three to five-year cycle for filing future GCAP applications should be approved, and the Commission should require PG&E to provide notice to the Commission at least six (6) months before any planned GCAP filing, in order to advise the Commission whether the GCAP filing would be timely or delayed.

O R D E R

IT IS ORDERED that:

1. The final 2019 Gas Transmission and Storage (GT&S) throughput forecast adopted in Application 17-11-009 shall be used to implement the rates, presented in this gas cost allocation and rate design (GCAP) Application 17-09-006.

2. Pacific Gas and Electric Company shall update its gas distribution throughput forecasts approved in future Gas Transmission and Storage (GT&S) cases, on an ongoing basis, via a Tier 2 advice letter filing.

3. Pacific Gas and Electric Company shall use the marginal cost methodology initially adopted in Decision 92-12-058 to allocate revenue requirements to customer classes in this gas cost allocation and rate design proceeding, updated to reflect the Commission's Public Advocates Office (Cal Advocates') Discounted Total Investment Method-based Marginal Distribution Capacity Cost estimate, and the Rental Method Marginal Customer

Access Cost marginal costs presented in this proceeding and as updated by Cal Advocates' marginal cost study modified by utilizing the Rental Method; updated for the new tax law and cost of capital and removing smart-meter opt-out costs from revenue cycle services costs; and further updated by using PG&E's \$373.74 per Dth per day in PG&E's 2017 GRC Phase I application.

4. Pacific Gas and Electric Company (PG&E)'s proposal to reduce the residential Tier 1 and Tier 2 bundled rate differential to 1.2 over four years is granted, and PG&E shall return to the bundled rate ratio of 1.2 gradually over a four-year period, beginning with implementation of this decision, as proposed in this Application.

5. Pacific Gas and Electric Company shall implement a \$1 increase in the residential minimum transportation charge from the current \$3 to \$4 dollars per month for non-CARE customer basic service.

6. Pacific Gas and Electric Company (PG&E)'s proposal to update the Core Brokerage Fee based on an update of the Core Brokerage Fee study with recent information for the elements of the study is approved. PG&E shall update the Core Brokerage Fee to \$0.0249 per Dth based on an update of the Core Brokerage Fee study.

7. Pacific Gas and Electric Company (PG&E) shall update the master meter discount and the master meter discount diversity benefit adjustment in Schedule GS (Gas Storage) and GT (Gas Transmission) as directed in Section 4.8 of this decision.

8. Pacific Gas and Electric Company (PG&E) shall implement the updated natural gas vehicle compression rate of \$0.96 per therm.

9. Pacific Gas and Electric Company shall allocate Energy Efficiency program costs to customer classes as follows: Residential Class (33.84%); Small

Commercial (32.86%); Large Commercial (1.94%); Industrial Distribution (10.82%); and Industrial Transmission (20.54%). consistent with Conclusion of Law 14.

10. Allocation of Energy Savings Assistance program costs shall be performed consistent with direction in D.95-12-053 and Conclusion of Law 15 of this Decision.

11. Based on the Decision (D.) 19-09-025 in Application 17-11-009 Gas Transmission and Storage (GT&S) proceeding, and once this gas cost allocation and rate design Application (GCAP) has been decided, Pacific Gas and Electric Company shall file a Tier 2 advice letter to update and implement the residential and non-residential gas rates resulting from the direction in this decision. The Tier 2 advice letter shall be filed within 60 days of approval of the Advice Letter implementing the GT&S decision, or 60 days after approval of the GCAP, whichever comes later. Once the Tier 2 advice letter is approved, PG&E shall implement GCAP rates no later than the 2nd month following the approval of the Tier 2 advice letter.

12. Pacific Gas and Electric Company (PG&E)'s proposal for a three to five-year cycle for filing future gas cost allocation and rate design (GCAP) applications is adopted, and PG&E shall file future GCAP applications in three to five-year cycles. At least six months before any planned GCAP filing, PG&E shall provide notice to the Commission of the planned GCAP filing and inform the Commission whether the planned GCAP filing will be timely or delayed.

13. Application 17-09-006 is closed

This order is effective today.

Dated October 24, 2019, at Redding, California.

MARYBEL BATJER

President

LIANE M. RANDOLPH

MARTHA GUZMAN ACEVES

CLIFFORD RECHTSCHAFFEN

GENEVIEVE SHIROMA

Commissioners